Vol. II

TRANSCRIPT OF RECORD

Supreme Court of the United States

OCTOBER TERM, 1943

No. 195

NORTHWESTERN ELECTRIC COMPANY AND AMERICAN POWER & LIGHT COMPANY, PETITIONERS,

vs.

FEDERAL POWER COMMISSION

ON WRIT OF CERTIORARI TO THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE NINTH CIRCUIT

PETITION FOR CERTIORARI FILED JULY 23, 1943.

CERTIORARI GRANTED OCTOBER 11, 1943.

EXHIBIT No. 45

Original Cost
Northwestern Electric Company,
Public Service Building,
Portland, Oregon.

Attention: Mr. C. W. Platt,
Secretary and Treasurer.

Gentlemen:

Your letter of May 27, 1939, with enclosure purporting to show the original cost and reclassification of the electric plant of your company as of December 31, 1936, pursuant to Electric Plant Instruction 2-D of the Commission's Uniform System of Accounts, has been received.

It appears that in submitting said original cost study you overlooked having said study properly verified by the officer in responsible charge of its compilation, as required by the Commission's order of May 11, 1937. Before said original cost study can be accepted for filing by the Commission it will be necessary for such officer to submit such verification, and it is therefore requested that same be immediately submitted.

The following is a proper form for the verification.

State of .....,
County of ..... —ss.

..... makes oath and says that he is ..... of ..... and that the foregoing statements entitled .....

.....were prepared under his supervision; that he has examined said statements and to the best of his knowledge and belief the information contained in said statements is true and correct, and is prepared in accordance with the appropriate provisions of the Uniform System of Accounts prescribed for Licensees and Public Utilities and the order of the Commission adopted on May 11, 1937.

.....

Subscribed and sworn to before me a Notary Public in and for the State and County of ....., above named, this.....day of....., 1939.

My Commission expires.....

Kindly furnish two conformed copies of the original cost study herewith acknowledged.

Very truly yours,
LEON M. FUQUAY,
Secretary.

cc Public Utilities Commissioner of Oregon
Washington Department of Public Service.

cc Bureau of Law
MVS:me
6/2/39

EXHIBIT No. 46

Northwestern Electric Company
Public Service Building
Portland, Oregon

June 14, 1939

Federal Power Commission
Washington, D. C.

Gentlemen:

In your letter of June 7 acknowledging receipt of this company's report of original cost and reclassification of electric plant as of December 31, 1936, you have requested that a certificate of verification be furnished. Such a certificate is handed to you herewith, and we shall appreciate your attaching it to the report now in your hands.

You have also requested us to send you two additional conformed copies of the report which we are also enclosing herewith.

Yours very truly,

C. W. PLATT,
Secretary and Treasurer.

EXHIBIT No. 47

Jun. 26, 1939

Northwestern Electric Company,
Public Service Building,
Portland, Oregon.

Attention: Mr. C. W. Platt,
Secretary and Treasurer.

Gentlemen:

This will acknowledge receipt of your letter dated June 14, with enclosure of certificate of verification, and two additional copies of your company's original cost study, requested by our letter of June 7. The certificate of verification has been attached to the original copy of said study.

A preliminary office review of said original cost study has now been made, and certain questions, as follows, have arisen in respect thereto:

(1) It is noted that Account 301, Organization, shown on Page 1 of Statement "D", carries the amount of $369,161.81, and that said Account on Page 1 of Statement "F" reflects the sum of $3,505,798.46. It is requested that the company submit a reconciliation of such two amounts, showing the items and amounts included in the said sum of $369,161.81, which are likewise included in said amount of $3,505,798.46, together with the disposition of any items which are included in the former, but excluded from the latter, and any items which have been included in the said sum of $3,505,798.46, but which were not included in the said amount of

$369,161.81, together with the source of such items. A full and complete description of each of such items should be given.

(2) Statement "D" reflects the amount of $109,489.55, carried in Account 303, Miscellaneous Intangible Capital, and on Statement "F", there is set forth in Account 303, Miscellaneous Intangible Plant, the sum of $109,583.55. It is requested that the nature of such amounts be fully explained.

(3) It appears from Statement "E" that Account 107, Electric Plant Adjustments, has been credited with the sum of $841,515.77, and that such Account reflects a credit balance of such amount. It is requested that the nature of said credit be fully described, and the reasons therefor given in detail; also, that there be furnished a statement showing each Account, including electric plant accounts 301-379, inclusive, affected by such credit amount, together with the contra amounts charged to each of such accounts so affected.

Upon receipt of your prompt reply to the foregoing, the Commission will give further consideration of the acceptance for filing of such original cost study.

Very truly yours,
LEON M. FUQUAY,
Secretary.

CC Oregon Com.
Wash. Com.
MVS. fo
6/22/39

EXHIBIT No. 48

Northwestern Electric Company
Public Service Building
Portland, Oregon

July 22, 1939

Federal Power Commission
Washington, D. C.

Gentlemen:

Your letter of June 26 requested that we furnish certain additional information with respect to our original cost studies. The points mentioned in your letter will be discussed in the same order herein.

(1) With respect to the amounts of $369,161.81 and $3,505,798.46 shown under Account 301 on Statements D and F, respectively, the latter amount includes $3,400,000 which on Statement D is shown as "Miscellaneous Intangible Capital" on Page 3, but does not include an amount of $263,363.35 for preferred stock sales expense which was included in the amount of $369,161.81. Comment under point (3) will give the disposition of the item of $263,363.35. These two items reconcile the difference between the two above mentioned amounts.

The item of $3,400,000, together with $100,000 already included in Account 301, making a total of $3,500,000, represents the estimated cash value at the time of the transaction of the common stock given to the incorporators of the Company as compensation for their promotional efforts and their executive and administrative services to the Com-

pany extending over a period of years, for the risk incurred in furnishing capital and guaranteeing large sums of money invested in an unproven enterprise, and for costs incurred in the solicitation and sale of the preferred stock issue.

Further detail regarding this item is included in Statement A, and as shown in that statement, the reproduction cost new of the property at 1925, 1932, and 1935 exceeded the book plant account, including the $3,500,000 of intangibles, which shows that other items of tangible and intangible property are existent but are not reflected by the book plant account.

In addition to the items heretofore mentioned, there is also included in Account 301 on both Statements D and F an amount of $5,798.46 representing sundry other items.

(2) With respect to the amount of $109,489.55 shown on Statement D in Account 303, Miscellaneous Intangible Capital, this item represents net expenditures made by this Company in connection with preliminary organization of its properties prior to July 1, 1914. The difference of $94.00 between the amount shown in Statement D and that shown in Statement F represents a minor adjustment of an expenditure in connection with a business survey in the year 1913 developed in the course of the reclassification work.

(3) In respect to $841,515.77 credit balance in account 107, this amount represents the difference between the original cost of the property, estimated where not known, and the book plant account as

of December 31, 1936, offset by a debit of $243,953.47 representing the electric utility's portion of preferred stock expense transferred from account 301 as referred to under point (1). The contra charges are reflected in the difference between the items in Statemnt D and Statement F.

Yours very truly,
C. W. PLATT,
Secretary and Treasurer.

EXHIBIT No. 49

Aug 17 1939

Original Cost
Northwestern Electric Company,
Public Service Building,
Portland, Oregon.

Gentlemen:

Reference is made to your letter dated July 22, 1939, furnishing certain additional information in respect to the original cost study of your company tendered the Commission for filing on June 1, 1939.

It appears that the amount of $3,500,000 included by the Company in Account 301 Organization, in such study, was improperly included therein, and such amount should be carried in Account 107, Electric Plant Adjustments.

It further appears that the company has included in Account 100.1, Electric Plant in Service, the following items which are offset by credits to Account 107, Electric Plant Adjustments:

Interest during construction, on construction costs in work orders during the period 7-1-14 to 12-31-35	$ 34,959.79
Interest and taxes on construction materials and supplies on hand at the end of each year for years 1915 to 1935, inclusive	238,220.52
General expenses previously charged to operating expense, years 1924 to 1936, inclusive	780,922.75
Interest on average cash balances applicable to construction, July 1, 1914 to December 31, 1934	31,443.45
Total	$1,085,546.51

The foregoing items cannot be accepted as constituting original cost of the electric plant of Northwestern Electric Company, and the Company's proposed reclassification entries pertinent thereto, should be reversed.

It is therefore requested that the company furnish the Commission not later than thirty days from date hereof revised sheets for its original cost study heretofore submitted, reflecting the necessary corrections to such study as above set forth.

Very truly yours,

CHAS. W. SMITH,
Chief,
Bureau of Accounts, Finance & Rates.

cc Washington Dept. of Public Service
Public Utilities Commissioner of Oregon—
via air mail

MVS.fo
8/17/39

EXHIBIT No. 50

Northwestern Electric Company
Public Service Building
Portland, Oregon

September 13, 1939

Air Mail
Chas. E. Smith, Chief
Bureau of Accounts
Federal Power Commission
Washington, D. C.

Dear Sir:

We acknowledge receipt of your letter of August 17, in which you request that the Company file revised sheets for its original cost study which will amend its original filing, so that amounts charged as the estimated value of the consideration given to the incorporators of the Company for their services, for interest during construction and for certain other items will be eliminated as items of original cost and carried in Account 107.

Your letter does not assign any reason for the requested changes, and the Company, after re-examination of its original filing, is unable to understand the suggestion of error. In the opinion of the Company the items referred to represent actual costs incurred by the Company in the construction of the present system. The sums involved are substantial and the requested changes are of material import. We shall sincerely appreciate an explanation of the reasons why, in your opinion, such items are

not properly includible in the accounts as presently stated.

Yours very truly,
C. W. PLATT,
Secretary and Treasurer

EXHIBIT No. 51

Oct 3 1939

Original Cost
Northwestern Electric Company

Northwestern Electric Company,
Public Service Building,
Portland, Oregon.

Attention: Mr. C. W. Platt, Secretary.

Gentlemen:

Receipt is acknowledged of your letter of September 13, in reply to our communication of August 17 relative to the original cost study of your Company, and requesting our opinion as to why certain items claimed by the Company to represent original cost are not deemed properly includible in the accounts to which they have been assigned by the Company.

One of the items amounting to $3,500,000.00, included in Account 301, Organization, is stated to be the estimated value of consideration given to the incorporators for their services. The text of Account 301, of the Commission's Uniform System of Accounts, clearly does not permit the inclusion therein of any items of the nature described.

Electric plant instructions of the Commission's Uniform System of Accounts require reclassification of dollars in the electric plant accounts as of January 1, 1937, to new accounts. Nowhere in the system of accounts is there any indication that the book costs of property constructed by the Company, when such costs are stated in accordance with accounting theory acceptable at the time, should now be recomputed on a different accounting basis, so that amounts previously charged to expense would now be capitalized. In this connection, you are referred to the last sentence in Electric Plant Instruction 2-B, which sentence reads as follows:

> "It is likewise not intended that adjustments shall be made to record in electric plant accounts amounts previously charged to operating expenses in accordance with the uniform system of accounts in effect at the time or in accordance with the discretion of management as exercised under such uniform system of accounts."

Under this instruction, items of general expense previously charged to expense in accordance with the system of accounts effective at the time and in accordance with the policy of management should not now be reclassified and claimed as capital items.

The plan suggested in the Commission's letter of August 17 is the only plan which is acceptable at this time for recording the reclassification of the plant of your Company as long as questionable items mentioned in that letter are contained in the

original cost study. If you are not in agreement with the plan mentioned, there would seem to be no recourse but to hold in abeyance entries recording the reclassification of the properties of your Company until a field investigation of the original cost study has been made.

Very truly yours,
CHAS. W. SMITH,
Chief,
Bureau of Accounts, Finance and Rates.

cc Washington Department of Public Service
Public Utilities Commissioner of Oregon
Original Cost Division
CWSlw
9/30/39

EXHIBIT No. 52

Nov 3 1939

Air Mail
Original Cost
Northwestern Electric Company,
Public Service Building,
Portland, Oregon.

Attention: Mr. C. W. Platt, Secretary-Treasurer.

Gentlemen:

Reference is made to the letter dated October 3, 1939, in which at your request are given the reasons why the original cost study of your company is unacceptable and fails to comply with the Commission's Uniform System of Accounts.

In order that the Commission may be fully informed, it is requested that your company advise within ten (10) days from date hereof whether it intends to submit the revisions to its original cost study outlined in the Commission's letter dated August 17, 1939.

Very truly yours,

LEON M. FUQUAY

Secretary

cc: Washington Department of Public Service
Public Utilities Commissioner of Oregon

MVS:ae
11-2-39

EXHIBIT No. 53

Northwestern Electric Company
Public Service Building
Portland, Oregon

November 10, 1939

Federal Power Commission
Washington, D. C.

Original Cost

Gentlemen:

Replying to your letter of November 3, we wish to assure you that we misunderstood the intent of your letter of October 3, to which it refers, and for that reason did not reply thereto. We assumed that our letter of September 13 had made clear that in the opinion of this Company the items referred to represent actual costs incurred by the Company in

the construction of the present system, and that, therefore, we cannot agree to their removal.

We shall therefore follow the suggestion contained in the last paragraph of your letter of October 3 and await a field investigation of our original cost study.

Yours very truly,
C. W. PLATT
Secretary and Treasurer

C. W. PLATT,

recalled as a witness on behalf of the Respondent, having been previously duly sworn, testified as follows:

Cross Examination
(Continued) [884]

Q. Now turning to another matter: The promoters and organizers of this company, according to your testimony, were the Messrs. Herbert H. and Mortimer Fleishacker; is that correct?

A. And their associates.

Q. Who was associated—Now are you referring to associates of theirs, or employees of theirs?

A. I think those who were associated with them were associated as employees.

Q. So eliminating for the time being from our discussion the subordinates, and confining ourselves

(Testimony of C. W. Platt.)

simply to the principals, it is your testimony that the organizers, [902] promoters and organizers, were the Messrs. Fleishackers? A. Yes.

Q. And they were the owners who were the incorporators of the company outside of nominal dummies that might have been, who signed the certificate of incorporation; is that correct?

A. That is right.

Q. That company was incorporated in January in 1911; that is correct?

A. That is correct.

Q. And in what state was it incorporated?

A. The State of Washington.

Q. It was the Fleishackers, was it, who employed the engineers who carried on the investigation into whether there was a suitable site for a hydro plant?

A. Yes.

Q. And these engineers employed by the Fleishackers surveyed streams, and so forth, and finally settled on a site on White Salmon River; is that right?

A. That is the site that was selected as the result of these surveys and studies that resulted therefrom.

Q. And you testified, did you not, at page 712, that "there is nothing in the record to indicate that the Fleishackers, although they had a part interest in the paper, were either the sole or the major owners thereof"; [903] that is correct, is it not?

A. That is correct.

(Testimony of C. W. Platt.)

Q. That is to say, you so testified?

A. I did.

Q. Now is the statement, as you testified to it, correct?

A. As a matter of fact, the statement that they had a part interest, insofar as I am concerned, is a matter of hearsay. I have, however, accurately stated that I know of nothing in the company's records that indicates that they were either sole or major owners of the mill.

Q. Did you ever inquire as to that matter from the Messrs. Fleishackers, or either of them?

A. I did not.

Q. You did not? A. I did not.

Q. You have discussed this problem with them, have you not, in the past?

A. I have made inquiry from them as to some of the things they did. I don't know whether I got their whole story. It is pretty hard to tell in a conversation whether you have been able to learn everything. You take what the other man tells you, obviously, and have to leave it to him as to whether it is the whole story or not.

Q. Of course, speaking generally, with respect to [904] this whole problem, practically all of your testimony in that respect is based upon hearsay, is it not, rather than knowledge of your own?

A. No, I would not say that. There are many kinds of records that have a bearing upon the activities of these men. For example, an examination of

(Testimony of C. W. Platt.)

the Accounts Payable vouchers would indicate that they scrutinized and determined the propriety of making many payments.

Q. Who scrutinized?

A. The Fleishackers.

Q. I see.

A. And approved those things for payment, showing that they were active in the administrative affairs of the company. There are various kinds of correspondence to be found here and there that indicate activity on their part.

Q. Is there anything to show that the owners of the paper mill scrutinized the expenditures in the early days carefully and performed the same general functions as those you have described in your last answer?

A. In behalf of the Northwestern Electric?

Q. In behalf of anyone.

A. I would not have any occasion for knowing what the owners of the paper mill did with respect to the paper mill.

Q. Well, with respect to expenditures in connection [905] with the hydro development that we have been discussing here, or the proposed hydro development, which ultimately, apparently, eventuated in the promotion of the Northwestern Electric Company.

A. I have no knowledge that the officers of the paper mill, whoever they may have been, had anything to do with it.

(Testimony of C. W. Platt.)

Q. Did you know——

A. If I were to presume that officers of the paper mill attempted to assume jurisdiction over the affairs of the Northwestern Electric Company, as officers of the paper mill, I think I would be taking in a lot of territory.

Q. Well, do you have any idea who the officers or who the owners of the paper mill were?

A. I do not know.

Q. That is, you do not know who the officers of the paper mill were? A. I do not.

Q. You don't know who the owners of the paper mill were? A. I do not.

Q. Yet you swore, did you not, Mr. Platt, that "In 1910 the owners of the paper mill at Camas, Washington, about 20 miles east of Portland, Oregon, in need of a dependable supply of power for the operations, employed [906] engineers who carried on investigations for several months, surveying a number of streams, and finally selected a site for a hydro-electric power plant on the White Salmon River about 60 miles east of Portland." You did so swear, did you not?

Mr. Laing: Mr. Platt, he is asking you about your preceding testimony.

Mr. Slaff: I am asking you if you swore in this proceeding that that is so.

The Trial Examiner: Do you know the page that you were reading from?

(Testimony of C. W. Platt.)

Mr. Slaff: Yes. Page 3 of the answer sworn to by Mr. Platt and submitted in this proceeding, sworn to on July 20, 1940, by Mr. Platt.

The Trial Examiner: Oh, the answer of respondent?

Mr. Slaff: Yes sir.

(Mr. Laing furnishes copy of said answer to the witness.)

A. I think that speaks for itself. It meant, in effect, that they employed or caused to be employed——

Q. Well, just a minute. Let me understand this. Are you changing the statement that you made at page 3 of the answer, which I have just quoted to you and which you swore to on July 20, 1940?

A. I don't see any,—any material difference [907] between——

Q. Well, let us worry about the material difference, Mr. Platt. You just confine yourself to answering the questions.

Now, are you changing this statement, or do you want to change this statement at page 3 of your answer, that I quoted to you and that you swore to on July 20, 1940?

A. Well, let it stand as it is, then.

Q. All right.

A. Yes, I am perfectly willing to let it stand that the owners of the paper mill did that.

Q. Well, you testified here just a few minutes

(Testimony of C. W. Platt.)

ago that you didn't know who the owners of the paper mill were. Is that so?

A. I knew upon reliable hearsay,—hearsay that I was willing to accept, that the Fleishackers had an ownership interest in the Camas mill.

Q. Well, but you told me and insisted to me, did you not, that the Fleishackers, despite the fact that they had some proprietary interest in that mill, were not the owners of the mill; is that not what you told me last——

A. No, I did not say that.

Q. What did you say; do you remember, in that respect? At page 712 you said, "There is nothing in the record to indicate that the Fleishackers, although they had [908] a part interest in the paper mill, were either the sole or the major owners thereof." That is correct, isn't that so?

A. In the written record.

Q. Well, any record of which you have knowledge or about which you have knowledge; isn't that so?

A. I don't think it has to be a written to have it known in business circles that a man has an interest, an ownership interest in a business. As a matter of fact, the Messrs. Fleishacker, although they never revealed to me the amount of their interest in that mill, expressed to me the fact that they did have an interest.

(Testimony of C. W. Platt.)

Q. Well, you did discuss the matter with them, then, as to the extent of their ownership of the mill or the fact that they did have an ownership, you did discuss that personally with them?

A. That came out in the course of conversation with them, that they had an ownership interest in the mill.

Q. Then if your testimony earlier was, as I understood it to be, that you had not discussed that phase with them, if your testimony is that——

A. I had a——

Q. ——if your testimony is that, then that is not correct?

A. Then we misunderstood each other.

Q. Well, if your testimony is to that effect, then [909] you did not discuss that matter with the Messrs. Fleishacker, then your testimony is not correct.

A. That is right. The thing that I did not discuss with them is the degree of interest that they held.

Q. Now didn't you tell me just a few minutes ago here on the witness stand, Mr. Platt, that you didn't know who the owners of the paper mill were; you didn't know who the officers were and you didn't know who the owners were?

A. I didn't know who the owners were, beyond the Fleishackers, and I didn't know that the Fleishackers were officers of the paper mill.

(Testimony of C. W. Platt.)

Q. Now in your answer at page 3, you didn't say "the part owner or owners of a partial interest in the paper mill", did you? A. I did not.

Q. You didn't make any qualification with respect to the owners in your answer, did you?

A. I did not.

Q. You stated, flatfootedly and unequivocally, that the owners of the paper mill employed engineers who carried on investigations, and so forth; that is correct, is it not?

A. The record speaks for itself. [910]

Q. And you also, in fact, went even further and said: "These paper mill owners who were residents of San Francisco incorporated Northwestern Electric Company under the laws of the state of Washington in January, 1911"?

A. That is right.

Q. That is a correct statement of what you swore to in your answer on July 20, 1940? Is that not so?

A. That is correct.

Q. Then, it is your statement now that it was the Fleishackers rather than the owners of the paper mill at Camas who employed engineers to survey sites for the contemplates hydro-electric development? Is that correct? A. That is correct.

Q. And such surveys were made, and the Northwestern Electric Company was incorporated in January of 1911? Is that correct? A. Yes, sir.

Q. Now, when was the first issue of common stock of this corporation authorized? When was it first issued?

(Testimony of C. W. Platt.)

A. You have used the terms "authorized" and "issued".

Q. I think I narrowed it down, finally, to "issued".

A. When were the certificates issued?

Q. That is right.

A. The certificates for 49,997 shares were issued March 14, 1911. [911]

Q. To whom?

A. B. C. Condit and B. A. deYarman.

Q. They were nominees for the Messrs. Fleishacker? A. I so understand.

Q. You have no doubt about that, do you?

A. There is no doubt in my mind.

Q. Okeh.

A. The other three shares of the 50,000 were issued to three other stockholders on August 18, 1911.

Q. They were simply, I suppose, qualifying shares and the persons to whom they were issued were also nominees of the Messrs. Fleishacker? Is that correct? A. I believe that is correct.

Q. And again with respect to that, you have no doubt about it?

A. No, there is no doubt in my mind about it.

Q. A total of 100,000 shares of common stock, however, was issued by this company? That is correct, is it not? A. That is correct.

Q. And when was the second 50,000 shares issued? A. May 14, 1912.

(Testimony of C. W. Platt.)

Q. Now, the second 50,000 shares, which you say were issued May 14, 1912, was also issued to the Fleishackers or their nominees? That is correct, isn't it? [912] A. That is right.

Q. You have testified, have you not, that all the shares of stock of this company were issued for services rendered? A. That is right.

Q. You so testified, as a matter of fact, in these very words before the Securities and Exchange Commission last fall, in November, I believe, in connection with the proceeding then pending before the Commission with respect to the issuance of securities by your company?

A. I don't recall the testimony on that subject at this time.

Q. I call your attention to photostatic copies of the transcript of your testimony before the Securities and Exchange Commission, Docket No. 32-173, in the matter of Northwestern Electric Company, at Washington, D. C., October 16, 1939. I call your attention to the following questions and answers; under cross examination by Mr. Freedman of the Commission staff:

> "Q. Mr. Platt, with respect to the Company's property account, to what extent has property been acquired in exchange for securities?
>
> "A. With the exception of the transaction at the beginning of the Company's history when 100,000 shares of common stock were issued for

(Testimony of C. W. Platt.)

services rendered, no other [913] property has been acquired in exchange for securities."

That is correct, is it not?

A. That is correct.

Q. And you did so testify? A. I did.

Q. Now, it is the record of the corporation made in 1915 that the second 50,000—that the consideration for the second 50,000 shares of stock which were issued on May 14, 1912: "Said consideration, among other things, consisting of valuable services rendered to said corporation by and for the benefit of the said person to whom said additional 50,000 shares were issued between the date of the first issue of 50,000 shares and the date of the said additional issue of 50,000 shares." That appears in the minutes of the Trustees meeting of April 12, 1915, does it not? A. That is right.

Q. I show you this and ask you whether this is an extract from the minutes of that meeting?

A. It is.

Mr. Slaff: I ask that this document I hand the Reporter headed "Northwestern Electric Company, extract from minutes of Trustees meeting of April 12, 1915", be marked for identification Exhibit 58.

The Trial Examiner: It will be so marked. [914]

(Exhibit No. 58 was marked for identification.)

Mr. Laing: I have no objection to it being received in evidence.

(Testimony of C. W. Platt.)

Mr. Slaff: Well, we will get around to that later on.

By Mr. Slaff:

Q. You are not seeking in this proceeding, are you, to impeach this corporate record which has been marked Exhibit 58 for identification?

A. No.

Q. Then you accept that corporate minute? Is that correct—that corporate record?

A. I do.

Q. Now, with respect to the consideration received by the corporation for the issuance of the 100,000 shares of common stock of this company, the corporation received no property other than as testified to by you in your direct examination and in your cross examination, when we first took up this matter last Saturday?

A. That is correct. I testified with respect to the identifiable items of services, that the services that I could identify and evaluate.

Q. Well, confining yourself to those matters which you feel competent to discuss, those are the only matters—the only things, the only items of property, as you have called them, which, according to your testimony, was received [915] by the corporation for the stock, which was the 100,000 shares of stock which were issued by the corporation to the Messrs. Fleishacker? Isn't that so?

A. I don't know whether those were all or not. They were the only ones I could identify.

(Testimony of C. W. Platt.)

Q. As far as you know, these were the only items of property, as you call it, which the corporation received from the Fleishackers in consideration of the issuance of the stock to the Fleishackers?

A. That is right.

Q. Then the corporation did not receive any land for this stock? A. It did not.

Q. Or certainly no cash? A. No cash.

Q. Didn't receive any building? A. No.

Q. No generating equipment? A. No.

Q. Nothing of that sort. It received no water rights for the issuance of this stock, did it?

A. Not that I know of.

Q. And you have testified in the past that to your knowledge, or as far as you know, the company did not receive any property such as we have just been discussing, land, water, [916] rights, equipment, and so forth, in consideration of the issuance of this stock? A. That is right.

Q. Now, you placed a value in previous proceedings, did you not, to the corporation of the services rendered by the Messrs. Fleishacker?

A. I did.

Q. And what services, speaking of the—let me put it this way: And up to May of 1912, through that time, the only services rendered by the Fleishackers to the corporation were of a promotion, managerial nature? That is correct, is it not?

A. Yes.

(Testimony of C. W. Platt.)

Q. Now, with respect to these promotional and managerial services, and eliminating therefrom for the moment the consideration of the fact that you testified that they had a contract, a verbal understanding, a verbal agreement with the paper mill prior to the formation of the corporation, respecting the supplying of electricity to the mill, eliminating that from our consideration for the moment, you testified that the value to the corporation of their executive and promotional services was at the rate of $15,000 a year for each of them, beginning January 1, 1911, did you not? A. I did.

Q. Or at the rate of $30,000 a year for both of them? [917] A. That is right.

Q. Now, first, have you attempted to evaluate this alleged oral agreement that they had with the owners of the paper mill, with respect to an electric supply? A. I have not.

Q. And I take it you are not prepared to do so in this proceeding? A. I am not.

Q. As a matter of fact, I presume it would be virtually impossible for you to make any such evaluation that would satisfy you? Isn't that so?

A. It would be exceedingly difficult to do.

Q. Surely. And now, with respect to the $15,000 a year which you say was the value of the—which you testified was the value of the services of the Fleishackers to the corporation from January, 1911, have you attempted to find out how much time, for

(Testimony of C. W. Platt.)

example, the Fleishackers devoted during the year 1911 and the first part of 1912 to this company?

A. Not with any degree of exactness.

Q. Well, let's get away from degrees of exactness, then. Have you come to any generalized conclusions on that subject?

A. None except the fact that an examination of the records shows that the Fleishackers were continuously active. [918]

Q. Well, what records?

A. Well, I am referring to the records of—as I said a few minutes ago, accounts payable which indicates that they were taking care of the disbursements of the company. There is a record of attending at Board meetings and correspondence here and there throughout the records of the company. How much time they spent, obviously, is not ascertainable at a date now more than twenty-five years removed from where we are today.

Q. When were the books of account of the Northwestern Electric Company opened?

A. I don't know. I assume shortly after incorporation.

Q. Do you know how much time the Fleishackers spent in connection with this enterprise in Portland? A. I do not.

Q. Do you know how much time they spent in connection with this enterprise in San Francisco?

A. I do not.

(Testimony of C. W. Platt.)

Q. Do you know how much time they spent in connection with this enterprise any place else?

A. I do not.

Q. You do know that they charged to this enterprise, and were reimbursed from the Company, only three trips to Portland—or two trips between January, 1911, and May, 1912? [919] You know that, don't you?

A. No, I am not familiar with that fact. It may be true.

Q. You have examined, have you not, in the past, the proceedings and vouchers showing the details of the reimbursements made to A. Fleishacker and Company for the first sums expended on behalf of the Northwestern Electric Company totaling some $181,000, including interest at 6%?

A. I have seen such a statement.

Q. Well, that is in the records of your company, isn't it? A. Yes, sure.

Q. You are not familiar with the number of trips alleged to have been made by the Fleishackers to Portland in connection with this enterprise, for which expenses were charged to the corporation and which expenses were reimbursed to the Messrs. Fleishacker? A. I am not.

Q. You have no familiarity with that at all?

A. No.

Q. You can check that readily for us? Can you have it checked? You can pull the voucher, can't you?

(Testimony of C. W. Platt.)

A. You mean this particular voucher that you have just referred to? Q. Sure. [920]

A. Yes, that can be done.

Q. And that shows the details of these trips, does it not, that is the number of trips between 1911—the beginning of 1911 and May, 1912, that the Fleishackers charged to Northwestern Electric Company, the trips to Portland?

A. That would show the number of trips they were reimbursed for. How many other trips there were, I am uninformed about.

Q. Surely.

A. The reason I say that is that they had—they have had in the past and may have had then other interests up here and they might have been here on other occasions in taking care of Northwestern affairs without putting in any expense account.

Q. Well, they were pretty careful, weren't they, in charging small items which they believed were incurred on behalf of this corporation to this corporation?

A. I don't know how careful they were.

Q. Well, I see an item here which I ask you to verify—just at random—on the voucher of November 15, 1911, "Advanced to George B. St. Lawrence, 75c." You can verify that, can you?

A. That can be verified.

Q. I also see that on April 20, 1911, they were careful to put down a credit, "To cancel bank charges for [921] telegram, 50c." You can verify

(Testimony of C. W. Platt.)

that from the company's vouchers, too, can't you?

A. I can.

Q. That would indicate that a reasonable amount of care was exercised to enter any charges to Northwestern Electric Company that were proper charges against the company? A. It so indicates. [922]

Q. Now you don't know, do you, what other enterprises the Fleishackers were engaged in at this time?

A. Other than some interest which they had in the paper mill.

Q. Well, you do know that they had other interests at the time?

A. They did, subsequently. I don't know whether they did at that time or not.

Q. Right at that time they had an interest in A. Fleishacker & Company; you knew that, didn't you?

A. Oh, I knew that. I thought you meant in this area.

Q. No, no. Speaking of their other interests which the Fleishackers had at that time, in 1911 and 1912, you know that at that time they had other wide and varied interests, financial interests, isn't that so? A. They had other interests.

Q. Well, they were members of A. Fleishacker & Company, were they not? A. They were.

Q. Partners in that company? A. Yes.

The Trial Examiner: What sort of a company was that, Mr. Slaff?

(Testimony of C. W. Platt.)

Mr. Slaff: Well, that was just the next question.

[923]

Q. What was the nature of A. Fleishacker & Company? A. I don't know.

Q. Was it an investment company?

Mr. Laing: It was a partnership, wasn't it?

A. Were you referring to the character of business that they did?

Q. Yes, surely.

A. I don't know what the character of the business was.

Q. You don't know whether it was a paper box company? A. I do not.

Q. Now, did the Fleishackers have—You do know, and I think you so testified, that that was a partnership? A. Yes.

Q. And of course, as a partnership, personal liability was attached to the partners?

A. That is correct.

Q. They keep a pretty watchful eye on the affairs of the company where their personal liability and credit was involved, would they not?

A. Well, I admit that they keep watchful eyes on the affairs.

Q. Now, you know that they had various banking interests at the time, did they not?

A. They did have. [924]

Q. And what were those?

A. I don't know what the names of the banks were at that time. Later, one of the banks that they

(Testimony of C. W. Platt.)

were interested in was the Anglo & London-Paris National Bank. Whether that is the name of the institution at that time I am not sure, although I think it was.

Q. They also had a trust company?

A. They were interested in the Anglo-California Trust Company. Whether it dated back to 1911 or not, I am not certain.

Q. Were they also interested in the Great Western Power Company, in San Francisco?

A. I don't know.

Q. You have never attempted to find out, I suppose? A. I have not.

Q. Now do you know of any other business interests that the Messrs. Fleishackers had at that time, in 1911 and the forepart of 1912?

A. I do not.

Q. Beyond what you have told us already, you cannot give us any more specific details as to the time spent and the actions taken by the Messrs. Fleishacker in their promotional and managerial relationship to the Northwestern Electric Company in the year 1911 and the forepart of 1912, that you have valued at the rate of $15,000 a year apiece [925] to the company? A. No.

Q. Now the corporation itself did not regard the consideration for the issue of this stock on its books of account as Services Rendered by the Messrs. Fleishacker, did it?

(Testimony of C. W. Platt.)

A. The journal has put that on the books as a charge to construction. And of course it was nothing at that time but a property under construction.

Q. When did the Northwestern Electric Company come under the regulation of the Uniform System of Accounts, or when did it become subject to a regulatory uniform system of accounts?

A. In 1913.

Q. And that is the Oregon System of Accounts, adopted June 16, 1913, and effective July 1, 1913; is that correct? A. That is correct.

Q. Do you have a copy of that before you?

A. I do.

Mr. Slaff: I should like at this time to have marked for identification, and I regret that we have not brought over the other copies, but we will bring them over at recess, a certified copy of the Uniform Classification of Accounts for Electric Utilities, Gas Utilities and Water Utilities, prescribed by the Railroad Commission of Oregon, effective [926] July 1, 1913.

The Trial Examiner: It will be marked for identification as Exhibit 59.

(Petitioner's Exhibit 59 marked for identification.)

Q. Now first tell us how that $10,000,000 was entered on the books of the company in the fixed capital account?

A. Well, the first entry, as I have stated, was

(Testimony of C. W. Platt.)

an entry charging construction and crediting common capital stock.

Q. (Mr. Laing) What is the date of it?

A. January 31, 1914.

Q. And in the company's first report to the Oregon Commission there appears this item of $10,000,000 in the Accoun "Landed Capital, Land devoted to electrical operation", isn't that so?

A. That is correct.

Mr. Slaff: I hand the reporter photosatic certified copy of page 3 of the Annual Report of the Northwestern Electric Company for the Year Ended June 30, 1914, filed October 17, 1914", and verified by Messrs. W. E. Coman, vice-president E. S. Richardson, auditor, and ask that it be marked Exhibit No. 60 for identification.

The Trial Examiner: It will be so marked.

[927]

(Petitioner's Exhibit No. 60 marked for identification.)

By Mr. Slaff:

Q. We are agreed, are we not, that the $10,000,000 did not represent land devoted to electrical operations? A. Yes.

Q. Now, there was provision, was there not, in the Oregon System of Accounts, pursuant to which this first report, identified as Exhibit 60,—there was authority under the System of Accounts for a charge with respect to promoters' services to the organization account? A. That is right.

(Testimony of C. W. Platt.)

Q. And what was that account number? Was it 201? A. Account 201.

Q. And that account provided as follows, did it not: "201. Organization. Charge to this account all fees paid to governments for the privilege of incorporation, and all office and other expenditures incident to organizing the corporation or the enterprise, and putting it in readiness to do business. This includes the cost of preparing and distributing prospectuses, the cost of soliciting subscriptions for stock (but not for loans nor for the purchase of bonds or other evidence of indebtedness), the cash fees paid to promoters, and the actual cash value at the time of organization of securities paid to promoters for their services in organizing the enterprise, counsel fees, [928] cost of preparing an issuance of certificates of stock and cost of procuring certificates of necessity from State authorities and other like costs." That is correct, is it not?

A. That is correct.

Q. It so provides. That $10,000,000 was never entered into this account by the owners of Northwestern Electric Company who preceded American Power & Light Company in ownership; isn't that so? A. Not to my knowledge.

Q. Well, when you took charge of the books of the company you found that in the past that had had always been charged to "Landed Capital," isn't that so?

(Testimony of C. W. Platt.)

A. That is where I found it when I took charge of the books, and as far as I know it was continuously reflected there from the date when this first report was rendered for the year of 1913.

Mr. Laing: The year 1914, wasn't it?

Mr. Platt: Well, it was for 1913. This first entry, the report is for the year ended June 30, 1914.

Q. Now when you took charge of the books in 1925, you made no change in that entry; that is correct, is it not?

A. As far as I can recall, the company continued to carry it and report it from 1925 on, as it had done formerly.

Q. Well, then, as far as reflected in your books, [929] this item was not considered by your company as organization expense until 1933.

A. That is the time when we defined it as Organization Expense.

Q. Well, can you answer my question directly?

The Trial Examiner: Do you wish the question repeated, Mr. Platt?

A. If you please.

(Question read.)

A. It was not regarded as Organization Expense on our books, or reported as Organization Expense on our books.

Q. Can't you answer the question directly, Mr. Platt? As far as your books were concerned, the books of account of the company, from 1925 to 1933

(Testimony of C. W. Platt.)

this amount was not considered by your company as Organization Expense? That is correct?

A. Yes. And I just so stated.

Q. Well, just so we are sure. Now the first time, when, according to your books of account, this was considered by you as Organization Expense was about May of 1933, when an entry was made as of December 31, 1932; that is correct, is it not?

A. That is right.

Q. And that entry was made in connection with a rate proceeding then pending, involving your company, was [930] it not?

Mr. Laing: You mean a time connection, or what do your mean by "a connection with a rate proceeding"?

Mr. Slaff: Well, at that time.

A. Well, at that time there was a proceeding going on before the Public Utilities Commissioner of Oregon, which probably was pointing up towards rates. It had to do with all the affairs of the company. It was in essence a rate proceeding.

Q. And it was just prior to your testimony in that rate proceeding that the entry was made in your books, on May 31, 1933, as of December 31, 1932, transferring $400,000 of this $10,000,000 to Organization? That is correct?

A. That is right.

Q. And the balance of the $10,000,000 was transferred on your books to Miscellaneous Intangible Capital Non-Operating? A. That is right.

(Testimony of C. W. Platt.)

Q. Now of this $400,000 that, in the year 1933, was for the first time reflected on your books of account as Organization Expense, of that $400,000 only $100,000 was dealt with promotional and executive and managerial services of the Fleishackers, such as we have been discussing this morning; that is correct, is it not? [931]

A. Administrative and managerial.

Q. Yes.

A. Promotional had better be left out of that category. [932]

Q. And of that $100,000 only approximately somewhat less than $45,000, according to your own testimony, would be applicable to be paid from the organization of the company,—its incorporation, rather, until the middle of May, 1912, isn't that right? A. That is right.

Q. And this figure of somewhat less than $45,000 is made up of services with respect to which you have told us you could not give us any more specific information than you have already done?

A. That is right.

Q. Now, you would not say, would you, that stock market prices for the year 1929 were a very good criterion or indication of stock market prices in 1931?

A. In the light of our experience, I think they would not be.

Q. Nor, would you say that stock market prices for 1929, for that matter, were very good or a de-

(Testimony of C. W. Platt.)

pendable criterion for stock market prices in 1927?

A. No. Of course if you study the situations and find them fairly comparable, as far as conditions are concerned, it might be easy enough to conceive that there would be some comparability between them.

Q. Relating ourselves back for a moment, very generally, to the year 1913 and the year 1915, did you make any [933] study of the comparability of economic conditions in this country as to those two dates? A. No.

Q. Pre-war and post-war—the commencement of war—did you? A. No.

Q. Now, the transaction between the Northwestern Company and the Fleishackers, whereby the Fleishackers received 100,000 shares of common stock that we have been discussing, was very definitely not an arms-length transaction? Isn't that so?

A. No, it would not be.

Q. Certainly. It was anything but that, as a matter of fact? A. That is true.

Q. Now, in this connection generally, is it the theory upon which you are proceeding that the value of the stock was different from the value of the consideration received by the company for the stock? A. Yes.

Q. And you measure the one by certain standards and the other by other and different standards? Is that correct?

(Testimony of C. W. Platt.)

A. They are two different things and you have to approach them at two different angles.

Q. And you did so approach them from two different [934] angles? A. I did.

Q. And, as I say, you used two different standards in measuring the value of the one and the other? A. Different indices of values.

Q. Now, other than the services which you have called "the property" which the corporation received from the Fleishackers for the issue of this stock, all the other property of the corporation was represented by debt, was it not?

A. Will you read that question, please?

(Question read.)

Q. (Continuing) At the time of the issuance of the stock? A. Yes.

Q. So that the corporation, above that, had nothing but the services which the Fleishackers had rendered? That is correct, is it not?

A. Their services and their credit which they put at the disposal of the company.

Q. Well, all of those things which you described in your direct testimony as the property received by the corporation from the Fleishackers?

A. That is correct.

Q. Well, the credit advanced to the corporation up to [935] the time of the issue of the stock was the credit of A. Fleishacker & Company, was it not?

A. Oh, no, no, there was—there were credit undertakings on the part of both Herbert and Morti-

(Testimony of C. W. Platt.)

mer Fleishacker, up to May 14, 1912. I do not have information here indicating just what credit was made available to the company prior to that date.

Q. Without going into that specifically at this time, we can return to that later. Using the term "services" as broadly as you wish in this general connection, all that the corporation had at the time of the issuance of the common stock to the Fleishackers, all that it had other than property represented by debt, was property which you described as the efforts, services and accomplishments of the organizers of the enterprise?

A. That is right.

Q. And you have previously valued that property to the corporation, for a period extending well beyond May 14, 1912, at $400,000? Isn't that right?

A. That is correct.

Q. And I think we discussed earlier this morning that of that $400,000 only $100,000 was applicable to services in a more narrow sense—services of the Fleishackers during the period 1911 to 1914? That is correct, is it not? A. That is. [936]

Q. And of that $100,000, only approximately less thaan $45,000 was applicable to these particular services rendered between January, 1911, and the middle of May, 1912? Is that correct?

A. If you prorated it over that period; if you merely prorate it over that period, you get that answer.

(Testimony of C. W. Platt.)

Q. Well, in building it up to $100,000, you built it up on the basis of $30,000 a year for both of them? A. That is right.

Q. So that is a proper way of prorating it for that period, is it not? A. That is satisfactory.

Q. Surely. So that, with respect to that item of property, that was the sole item of property which the corporation had over and above the other property, the property of a physical nature, which was all evidenced by debt, counterbalanced by debt, at the time of the issuance of the common stock to the Fleishackers?

A. No, that is not correct. I have testified here only with respect to specific items that are subject to identification and that I was able to evaluate. Now, there may have been—I don't know—other items of value which those promoters put into the enterprise that were of value to the Northwestern Electric Company.

Q. Well, you realize, Mr. Platt, I think by now, that [937] we are discussing here only those things of which you do have knowledge, whether that knowledge is direct or based upon what you call "reliable hearsay".

A. As long as we both understand that we are talking only concerning those things that I have identified, then these statements are correct.

Q. You didn't base your valuation of $3,500,000 on things you didn't know about, that you could not identify, did you?

(Testimony of C. W. Platt.)

A. That was a judgment figure, based upon such facts as I could bring to bear upon it.

Q. Well, you are not trying to limit it, are you, —or are you,—by calling it a "judgment figure"? Whatever the figure was or whatever you call it, was allegedly based upon facts that you had at your command and "reliable hearsay", wasn't it?

A. Most certainly.

Q. And it wasn't based upon anything that you didn't know about, was it? A. No.

Q. Now, then, confining ourselves to those things that you know about, so that the cross examination may be on the same basis as your direct examination, at the time of the issuance of the stock to the Fleishackers, other than tangible property represented by debt, the only property that the cor- [938] poration had consisted of services rendered by the Fleishackers? Isn't that so?

A. Services and their devoting their credit to the use of the enterprise.

Q. And those services and the devoting of their credit, you have valued to the corporation in prior proceedings? Isn't that so? A. Yes.

Q. And the maximum value that you have placed upon these services and credit for a period well exceeding January, 1911, to May 15, 1912, for a period twice as long as that, in fact, the maximum value you have placed to the corporation is $400,000? Isn't that right?

(Testimony of C. W. Platt.)

A. The maximum value that I have placed on identifiable items as an organization and promotional service, $400,000.

Q. And the maximum value that you have placed upon the property, so-called, given to the corporation for stock, in prior proceedings, has been $400,000, has it not?

A. I haven't placed any value on that stock in that manner.

Q. No, I realize that, Mr. Platt.

A. All I have done is, I have placed a value upon services rendered at a price which I think the corporation would have paid for those services if they had engaged them [939] on a cash basis.

Q. That is right. You have placed a value to the corporation. A. That is right.

Q. That is exactly it, upon the property given to the corporation by the Fleishackers for the stock? Isn't that so? A. That is right.

Q. And that value to the corporation was $400,000? That is right, isn't it?

The Trial Examiner: You mean he fixed it at $400,000?

Mr. Slaff: As he fixed it, certainly.

The Trial Examiner: That is true, isn't it, Mr. Platt?

A. Yes.

By Mr. Slaff:

Q. And that property represented by that $400,000 value, was all that the corporation had over

(Testimony of C. W. Platt.)

and above other property which was all represented by debt? Isn't that so?

A. Provided we continue upon our assumption that this figure which we are now trying to establish pertains solely to those things which I identified and evaluated, the answer is yes.

Q. Only to those things of which you know and concerning which you have testified? [940]

A. That is right.

Q. All right. And this property of which you knew, which you valued at $400,000 to the corporation, when it becomes represented by stock certificates in the hands of promoters, then has a value of $3,500,000, according to your theory? Isn't that so?

A. That is, in my opinion, the valuation or the value of the consideration that the company gave.

Q. Well, the valuation of the consideration which the company received? A. Is different.

Q. You have testified is $400,000?

A. That is right.

Q. And when that property is translated into a stock certificate, which the promoter received from the corporation in return for that property of a value to the corporation of $400,000, then it becomes worth $3,500,000, according to your theory?

A. It did become worth that.

Mr. Slaff: I suggest that perhaps this would be a good time to adjourn.

The Trial Examiner: We will stand at recess until 2 o'clock.

(Testimony of C. W. Platt.)

(Whereupon, at 12:40 o'clock p. m., the hearing was adjourned until 2:00 o'clock p. m., Tuesday, July 30, 1940.) [941]

Afternoon's Proceedings

Tuesday, July 30, 1940,
2:00 o'clock, p. m.

The Trial Examiner: The hearing will be in order.

C. W. PRATT,

produced as a witness on behalf of Respondent, resumed the stand.

Cross Examination (Resumed)

By Mr. Slaff:

Q. Now, Mr. Platt, we were discussing this morning various services and credit backing, and so forth, from the Fleishackers to the corporation which, in the rate proceedings before the Oregon and the Washington Commission, you value to the corporation at $400,000. Now that same total was made up, was it not, of three different items, each one of which embraced certain services?

A. That is right.

Q. And those items were an item of $100,000 for managerial or administrative services rendered from 1911 through 1913, or thereabouts?

A. To July 1, 1914.

Q. To July 1, 1914. And two other items, each in the amount of $150,000; that is correct, is it?

(Testimony of C. W. Platt.)

A. That is.

Q. And one of those items of $150,000 was for the services of the Fleishackers to the corporation in selling [942] an issue of preferred stock, without any other sales charged to the corporation; is that right? A. That is right.

Q. And those services were rendered after July, 1914, is that not correct? A. Yes.

Q. The other item of $150,000 was for other services or credit or what not, in connection with a two-year gold note issue by the corporation; isn't that so? A. That is right.

Q. And that gold note issue was made by the corporation about April of 1913; isn't that correct?

A. That is right.

Q. So that with respect to the services rendered up to May 14, 1912, which are identifiable to you and of which you have knowledge, you placed a value upon those services rendered from January 1911 to the middle of May, 1912, of approximately less than $45,000; that is correct, is it not?

A. Yes, except that you can't divide this period of development in that manner.

Q. You did, didn't you?

A. I did, for the purpose of a calculation that you wished me to make. What I want to say is this, Mr. Slaff——

Q. Surely.

A. ——that you can't divide the period during which [943] the Fleishackers, as promoters, per-

(Testimony of C. W. Platt.)

formed the services of organization which they undertook, namely, to put the corporation on its feet as a going concern.

Q. Had you finished your answer?

A. Yes.

Q. Well, you previously, on several occasions, to-wit in your testimony before the two Commissions, the two State Commissions, did so divide this period and allocate particular amounts to particular services at a particular time during the period? A. This stock——

Q. Is that correct?

A. I applied it up to the period ending July 1, 1914.

Q. Will you please repeat the question, and will you tell me whether you can answer that question as to whether or not it is a correct statement?

(Last question read.)

A. No.

Q. At particular times. Now you allocated $100,000 of your $400,000 total, to which you testified, to Administrative Services over the three and a half year period. That is correct, is it?

A. That is correct.

Q. And that was allocated on a basis of value to the corporation of those services at the rate of $15,000 a year [944] for each one of the two Fleishackers? That is correct? A. That is correct.

Q. And now with respect to another $150,000 of the $400,000, you allocated that amount as the value

(Testimony of C. W. Platt.)

to the corporation of the Fleishacker services in connection with the sale of the preferred stock, did you not? A. I did.

Q. And that sale of preferred stock took place at a specific time during this period, on and after a given date, on and after July 1, 1914; that is correct? A. That is correct.

Q. And with respect to the remaining $150,000, making up the whole total of $400,000, you allocated that specifically to the services of the Fleishackers; that is the value of those services to the corporation, in connection with the sale of a gold note issue by the corporation; isn't that correct?

A. That is correct. [945]

Q. And that simply took place on and after a specific time, April, 1913, isn't that correct?

A. Yes, except, Mr. Slaff, we are apparently missing the point of this whole thing, which is this: These men did these things, or we will say the proper things, at the opportune time for their performance but they were all part and parcel of a general undertaking.

Q. I am not missing any point, Mr. Platt. The basis on which you allocated, for example, the $150,000 as the value to the corporation of their services in connection with the sale of the preferred stock, is that it was your judgment that it would have cost the corporation approximately that much in selling expense if someone else had handled it, isn't that right? A. I so testified.

(Testimony of C. W. Platt.)

Q. Now, then, with respect to the services, then, to all the items that went in to make up the total of $400,000 value to the corporation which you testified to before the two State commissions, the only services that you testified to until May 15th, or May 14, 1912, were the administrative services which, over a three and a haalf year period, totaled $100,000? A. Yes.

Q. That is correct?

A. Except as I have stated before, that date in 1912, [946] in my opinion, has no significance. It is only a date within the period of organization.

Q. Well, of course——

A. (Interrupting) I can't see that it is a suitable date for the division of this total undertaking to organize the corporation and put it in readiness to do business with proper financial backing to it.

Q. I see. Well, of course you have testified that the stock in this corporation was issued for services rendered and not for services to be rendered, when you testified before the Securities & Exchange Commission, for example, last fall? Isn't that so?

A. The way I look at it——

Q. (Interrupting) Isn't that so? Is that so?

A. Services rendered, yes, but——

Q. (Interrupting) Now, if you want to explain.

A. But I am not saying that those services were completely rendered or all rendered as of the date in 1912 which we have referred to. In other words, Mr. Slaff——

(Testimony of C. W. Platt.)

Q. (Interrupting) Just a moment! This morning you told me that you did not want to impeach the resolution of the corporation of April, 1915. Isn't that so?

A. It is so and I have no intention——

Q. (Interrupting) Just a minute.

A. Now, let me finish, please. [947]

Mr. Laing: Let him finish his answer.

Mr. Slaff: Go ahead. I am not interested, as a matter of fact, in your intentions at this moment. I am trying to get some of the facts spread upon the record; but if you want to tell us what your intentions were, why go ahead.

A. As I have already stated in my direct testimony, Mr. Slaff, the minutes of the company during that period and the resolutions that are contained within those minutes lack a great deal by way of expressing what it was, either that the Fleishackers did or what they contemplated doing, and it is necessary to understand,—and that is the purpose of the direct testimony that I gave,—to understand what it is that they really did and what very clearly was in their minds to do, namely, to carry this corporation up to the point where it was an operating concern, properly financed.

Q. Mr. Platt—go ahead.

A. (Interrupting) And as further evidence that they had that intention, they not only at the time that the gold note issue went out put 90,000

(Testimony of C. W. Platt.)

shares of that common stock behind it, but at a later date they put 45,000 shares in effect in the treasury for the benefit of the company so that it was a continuous operation until the job was done.

Q. Mr. Platt, don't you suppose that in 1915 the Fleishackers had a better idea of what they got the stock for than you in 1940 have? [948]

A. Yes, but the record is——

Q. (Interrupting) Just a minute—Mr. Examiner, will you please instruct this witness to confine himself to the answer to my question for a short while?

The Trial Examiner: I think, Mr. Platt, we will get along better with the cross examination if you endeavor to directly answer the question. I am not going to interfere with any desire on your part to explain an answer, where you deem an explanation is needed. But I have observed several of these answers seemed to me not to require an explanation, particularly a long explanation. I think we will get along faster——

By Mr. Slaff:

Q. The answer to that question was yes, was it not? A. Let me have the question, please.

(Question read as follows: "Q. Mr. Platt, don't you suppose that in 1915 the Fleishackers had a better idea of what they got the stock for than you in 1940 have?")

A. Yes.

(Testimony of C. W. Platt.)

Q. Sure. And they took the opportunity to put themselves down on record in 1915, didn't they, as to what they gave the stock for, more particularly now the second 50,000 shares? A. Yes.

Q. And they, themselves, taking that opportunity, as [949] is shown in Exhibit 58, said that the consideration for the issue of the second 50,000 shares, among other things, consisted of valuable services rendered to the corporation between the date of the issue of the first 50,000 shares and the date of the issue of the second 50,000 shares? Isn't that so?

A. That is what the minute book shows.

Q. And the only services that you have been able to identify, and of which you have knowledge, that were rendered up to the date of the issue of the second 50,000 shares, which made a total of 100,000 shares issued—the value of those services to the corporation you have testified to as being approximately somewhat less than $45,000? Isn't that correct? A. Up to that time, yes.

Q. Yes. Now, you are trying, are you not, to find the value of the stock at the time of the issuance of the stock? [950]

A. No, I am trying to find or to place a value, —a cash value to the company upon the services which the Fleishackers gave to the corporation.

Q. I am talking about this proceeding.

A. Yes.

(Testimony of C. W. Platt.)

Q. Okey. Go ahead. I just want you to be clear on that.

Mr. Laing: I think Mr. Platt misunderstood the question.

Mr. Slaff: I think he did.

Q. I am talking about this proceeding.

A. Excuse me.

Q. Yes. I thought you had started off on another tangent, that wasn't included in the question.

Now with respect to this proceeding here before us, you are attempting to determine, are you not, the value of the stock at the time of its issuance?

A. I am, but in saying I am——

Q. Now, just—The answer is that you are?

Q. Okey.

Q. And you have placed, for purposes of this proceeding, a value upon that 100,000 shares of stock, at the time of issuance thereof, of $3,500,000? A. Yes.

Q. Now, then, I want to inquire with you into the process by which services which are worth $45,000 in the [951] hands of the Fleishackers, because that is all they can get from the Northwestern Electric Company, that is what the Northwestern Electric Company, you have testified, would have paid, how those services, in the hands of the Fleishackers, when translated into a stock certificate, became worth $3,500,000 in the hands of the Fleishackers.

(Testimony of C. W. Platt.)

Now, will you tell us what elements of value, at May 14, 1912, were represented in that stock which the Fleishackers held, other than the services which they had rendered to the corporation?

A. In order to approach this properly, I wish again to read again from Electric Plant Instruction 3-D, in the Uniform Classification of Accounts——

Mr. Slaff: Mr. Examiner, I submit that has been at least half a dozen times during the course of this examination. I think we are all pretty familiar with it.

The Trial Examiner: Is it necessary to go back over former testimony in the cross examination of Mr. Platt?

Mr. Slaff: My question just asks him what elements of value there were in that stock that did not represent services rendered by the Fleishackers to the corporation.

A. I am willing to forego reading that.

Q. Fine.

A. Since, as you say, we all understand it.

Q. All right. [952]

The Trial Examiner: You may answer it in your own way, though.

Mr. Slaff: Sure.

A. I am trying to find out what the cash value of that stock was; and in order to determine what that cash value is I must have recourse to such

(Testimony of C. W. Platt.)

indices of value as are available. And they are several.

Q. No, I am not asking you about the indices of value now, Mr. Platt. I am asking you about the elements of value that were represented by that stock, other than the services to the corporation by the Fleishackers. Not how you measure those elements of value. We will come to that.

A. The elements of value were obviously the establishment of a business which had, by reason of what had been done by the promoters, prospects of developing into the thing that they were undertaking to establish, which in their opinion, I am satisfied, was the completed undertaking, and not the undertaking as it appeared at some intermediate point during that period of development.

Q. Anything else?

A. I think that covers it.

Q. All right. Now you say the establishment of a business which, by reason of what had been done by the promoters, had prospects of developing into the thing [953] they undertook to establish, i. e., the completed undertaking. Now what had been done by the promoters had a value to the corporation, you said, of approximately $45,000. Right?

A. That was the figure developed in our calculations up to sometime in 1912.

Q. Yes. And I think you testified earlier this morning that it was a fair equitable way to allocate the $100,000, didn't you,—this morning?

(Testimony of C. W. Platt.).

A. Yes.

Q. You testified here this afternoon that the other services going into the $400,000 total were rendered after May 14, 1912. That is correct?

A. That is correct.

Q. To return to the question put to you, What had been done by the promoters up to that time had a value to the corporation, a cash value of approximately $45,000; is that right?

A. That is right.

Q. Now the only other thing besides that contained in this stock certificate for 100,000 shares was the prospect of the corporation developing into a completed undertaking. That is correct?

A. That is right. And as I have said, what I considered to be implied that the Fleishackers were going to [954] go ahead and complete their job, and that they would receive no more compensation for any further service in connection therewith.

Q. So that it was the prospective earning power of this business that, at May 14, 1912, was what this stock certificate represented, in addition to representing the $45,000 of services that the Fleishackers had, up to that time, rendered to the corporation?

A. No; it was what was in prospect up to July 1, 1914. I am not carrying it beyond that date.

Q. Well, do you mean the earning power and the ability to establish a successful and completed

(Testimony of C. W. Platt.)

business by July of 1914 was the one other element in this stock, at May 14, 1912, other than the services that the Fleishackers had rendered up to that date?

A. Yes, what they did to make that possible from that time on.

Q. Well, you have previously testified, have you not, that what they did to make that possible from that day on was worth to the corporation no more than $355,000; isn't that so?

A. That is what the corporation might have—That is the cash value that the corporation might have been called upon to pay, as an added sum for the completion of the job. [955]

Q. Well, you realize, of course, that you are interested in developing—Our problem centers around the problem of cash value. That is your understanding?

A. I don't believe that in this proceeding our problem centers around the value of the services that the Fleishackers rendered.

Q. No, as you conceive it, the problem is the value of the stock in the hands of the Fleishackers at the time of the transaction, to-wit by May 14, 1912, isn't that right? A. No; July 1, 1914.

Q. What was the time of the issue of the stock?

A. It had all been issued by sometime in the year 1912.

Q. And that was the time of the transaction when the Fleishackers received the stock?

(Testimony of C. W. Platt.)

A. That is right, in the year 1912.

Q. You have stated, have you not, that the item of $3,400,000, together with $100,000 already included in Account 301, making a total of $3,500,000, represents the estimated cash value at the time of the transaction of the common stock given to the incorporators of the company as compensation for their promotional efforts and their executive and administrative services with the company, extending over a period of years, and the risk in- [956] curred in furnishing capital and guaranteeing large sums of money invested in an unproven enterprise and for costs incurred in the solicitation and sale of the preferred stock issue. You so wrote to the Federal Power Commission on July 22, 1939, did you not? A. I did.

Q. Now I think you have agreed that the time of the transaction when the stock was issued to the Fleishackers, when the total of the stock had been issued to them, was no later than May 14, 1912. That is correct, is it not? A. That is right.

Q. Now as far as you are concerned, then, this stock that the Fleishackers had, represented two elements, one of services which had been performed by the Fleishackers for the corporation up to May 14, 1912, and second, the prospective establishment of the business into the thing which they had undertaken to establish; that is correct? A. Yes.

Q. And we have already discovered that you have valued to the corporation element number 1

(Testimony of C. W. Platt.)

at $45,000 or thereabouts; that is correct, is it not?

A. Up to May 14, 1912.

Q. That is correct. So that on May 14, 1912, the prospective establishment of the business into the thing which the Fleishackers had undertaken to establish had [957] a cash value of $3,455,000; that is correct, is it not? [958]

A. In my judgment, subsequent events proved that that is true.

Mr. Slaff: Mr. Reporter, will you be good enough to read the question?

(Question reread.)

A. I do not know what prospective cash value it had as of that date, because I have not attempted to evaluate that as of that date.

Q. You have not attempted to evaluate——

A. No, I haven't.

Q. (Continuing)——the cash value of the stock issued to the Fleishackers at the time of the transaction of the issuance?

Mr. Barber: Mr. Platt said he had not attempted to evaluate it as of that specific date, Mr. Slaff.

Mr. Slaff: I think Mr. Platt is competent to tell me what he said.

A. I am attempting to evaluate it as of the date when, in my judgment, the Fleishackers had completed their job.

The record shows that it was issued prior to the completion of their job; and in my judgment that

(Testimony of C. W. Platt.)

was nothing more than an issuance in advance of the completion of their job, and it must be taken into account that they made, in 1913, for example, 90,000 shares of that available for corporate use.

[959]

By Mr. Slaff:

Q. So your theory now is that the corporation issued this stock to them before it had received the consideration for that issue? Is that right?

A. It was issued in contemplation——

Q. (Interrupting) Well, was it before or after or at the time that it received the consideration?

A. I should say it was done before.

Q. Okeh. And that is the theory upon which you have proceeded—— A. That is right.

Q. (Continuing) —in this case, to your establishment of the valuation? A. Yes.

Q. So that at the time of the transaction of the issuance of the stock to the Fleishackers, you are not prepared today to state what the value of that stock was, on a cash basis? A. Yes, I am.

Q. Go ahead and state it.

A. But as to July 1, 1914——

Q. (Interrupting) No, no. I am asking you, Mr. Platt, whether you are today prepared to state the value on a cash basis of the 100,000 shares of stock at the time of the transaction of the issuance of those shares? [960] A. No.

(Testimony of C. W. Platt.)

Q. Now, as a matter of fact, Mr. Platt, your company itself had very grave doubts as to whether, legally or otherwise, your company had received value for the stock which was issued to the Fleishackers? Isn't that so?

A. Will you repeat that question, please?

(Question read.)

A. By "my company" do you mean the present management as distinguished from the prior management?

Q. I mean the Northwestern Electric Company, yes, and the present management of that company.

A. You are not asking me to express an opinion with respect to the former management?

Q. No, indeed not.

A. Yes, in 1932 when this first came to our attention as something in which the promoters of the company had failed to turn over to the company properties alleged to have been turned over, but which in fact the company had paid for itself, that came to our knowledge first about 1932 and then we had some doubts as to the value that was in this 100,000 shares of common stock.

Q. Well, you had such doubts, didn't you, that it led you to consult outside counsel as to whether a fraud action or an action of that nature would lie against the Fleishackers and whether the statute of limitations had tolled? [961]

A. I don't know.

(Testimony of C. W. Platt.)

Q. Well, don't you know that Mr. Laing consulted with Simpson, Thatcher & Bartlett with respect to that problem? A. I did not.

Q. Did you hear Mr. Laing so testify before the Oregon Commission in case UF-616 about December of 1932?

A. I don't recall it. It may have been done.

Q. Do you recall anything whatever in that connection? A. I do not.

Q. And this is the first you heard about the fact that Mr. Laing consulted with Messrs. Simpson, Thatcher & Bartlett with respect to that problem?

A. I may have known it at the time, but I have forgotten.

Q. And who are Messrs. Simpson, Thatcher & Bartlett?

A. They are a firm of attorneys in New York City.

Q. They are also counsel to the Electric Bond & Share Company, are they not? A. They are.

Q. Now, then, passing by May 14, 1912, if you will. As of what date did you determine the cash value of these 100,000 shares of stock?

A. July 1, 1914. [962].

Q. And as of that date, July 1, 1914, is that right? A. Yes.

Q. All the property of the Northwestern Electric Company, other than the services, and so forth, which you described in your direct testimony here as property received from Fleishackers, all the

(Testimony of C. W. Platt.)

property other than that was represented by debt, was it not?

A. Well, all of the property that had been paid for by cash had been paid for out of borrowed funds.

Q. Well, isn't my statement a fair one, the one I just made, and don't you agree with it?

A. There must have been at that time, and in my judgment there was, value inherent in the property of an intangible nature.

Q. Let's not worry about the value just at this particular moment, Mr. Platt, in this case. All the property, however, speaking of cost of the property, other than the property which you say had been given by the Fleishackers, all that property was represented by debt, was it not?

Mr. Laing: By "represented by debt", you mean acquired by debt?

Mr. Slaff: Well, there was debt outstanding against it at the time to the extent of its value.

A. That is right. I was stumbling over your word [963] "represented".

Mr. Laing: May I interrupt just a moment? I am not certain this is a mere matter of statistical record, but I am not certain that there was not some of the preferred stock out by the first of July, 1914. Have you got the figures there?

Mr. Slaff: The preferred was sold after July 1, 1914. There may have been a small amount——

(Testimony of C. W. Platt.)

Mr. Laing: I think some of it had been subscribed before that time.

Mr. Slaff: I think there was a small amount of preferred subscribed for by that time.

Mr. Laing: Authorized in April of that year.

By Mr. Slaff:

Q. Well, it was all represented, then, by debt, or a small amount of preferred in addition to debt? Can we agree on that, Mr. Platt? A. Yes.

Q. All right. So then, at that date, July 1, 1914, what did this stock represent in the way of value, in addition to the services of various natures which had been rendered by Fleishackers up to that time?

A. It represented the difference between the—between its cash value and the sum of its debts and any preferred stock that was outstanding. [964]

Q. What did its cash value embrace? What were the components that went into its cash value?

A. The cash value would be the value that it had as a marketable security.

Q. What elements of value were there in this stock over and above the property of the corporation which was represented by debt, or a small amount of preferred?

A. Any elements of value which I have not identified and have not evaluated.

Q. Now, what were those elements which you referred to now as elements which you have not identified? A. I don't know.

(Testimony of C. W. Platt.)

Q. So then, other than the services of various natures that you have described in your direct testimony, and which in your testimony before the two Commissions you testified had a value to the corporation of $400,000, other than those services, you don't know—or other than those items—you don't know what went in to make up the value of $3,500,000 of this stock, at July 1, 1914?

A. No, except those which are to be found in the intangible value of the corporation that has been put together right and stands at the completion of the initial construction period in readiness to do business.

Q. Well, what are those elements to be found in that intangible value that you speak about? [965]

A. I have already testified that I identified——

Q. (Interrupting) Well, other than those that you have identified, of course.

A. I don't know of any.

Q. Well, then, do I understand you to testify now that you do not know any other elements in these intangible values to which you ascribe a valuation of three and a half million dollars, other than those that you have identified in your direct examination?

A. Well, there is the value that is inherent in a going concern.

The Trial Examiner: Mr. Platt, I think you can answer that question more directly, particularly if

(Testimony of C. W. Platt.)

you consider the answer you have just given. Will you read the question again?

(Question read.)

Mr. Laing: He started to answer the question.

Mr. Slaff: He started on an answer dealing with a going concern.

The Witness: The answer was this, that I knew of none other than the values that are inherent in a going concern.

By Mr. Slaff:

Q. And those values that are inherent in a going concern, are they anything other than the ability to earn profits? A. No. [966]

Q. So that at July 1, 1914, there were then two elements in the value of the common stock as of that date: 1. Those which you have already identified; and, 2. The ability to earn profits? Is that correct? A. That is correct.

Q. Element No. 1 you have testified here had a value to your corporation of approximately $400,000, per your testimony before the two State Commissions and here? Isn't that right?

A. That is right.

Q. Element No. 2, then, to-wit the capitalized earning power of the company, makes up the balance of the $3,500,000, to-wit, $3,100,000, is that right? A. No, for the reason that——

Q. (Interrupting) What else, what else is there, then, in there?

(Testimony of C. W. Platt.)

A. For the reason that I am having recourse in establishing cash value of that stock to other means of appraisal than by building it up through the enumeration and evaluation of elements of cost.

Q. Yes, I know that, Mr. Platt, but you have just testified that there are two elements in that stock, in that value of three and a half million dollars, at July 1, 1914; one element is this matter of what you have detailed specifically as $400,000, and the second element is the ability to [967] make a profit. Isn't that so? A. That is correct.

Q. Now, element No. 1 you value to the company at no more than $400,000? Isn't that correct?

A. That is correct.

Q. There remains, then, in the value of that stock, only its capitalized earning power, isn't that correct?

A. I have not claimed that I have exhausted the whole list——

Q. (Interrupting) Oh, have you got another one?

A. (Continuing) ——of elements of cost.

Q. Tell us.

A. Because I didn't approach the evaluation of it from that basis.

Q. What other elements are there going in to make up the value of that stock as of that time, other than the two you have mentioned, and those that we have been discussing? Go ahead and tell us.

(Testimony of C. W. Platt.)

A. I don't know; but I am not saying at the same time that I have exhausted the category of all of the elements.

Q. Well, I am discussing with you, Mr. Platt, or trying to discuss only those things that you have knowledge of, and as far as you know those are the only two elements, isn't that right?

A. Those are the only two that I have knowledge of. [968]

Q. That is right. And the knowledge that you have of element No. 1, the services rendered of various sorts, rendered by the incorporators to the corporation,—all the knowledge and all the investigation that you made with respect to that led you to place a value of $400,000 to the corporation upon those services, isn't that right?

A. As a matter of fact, the $400,000 is not an element of value to the common stock.

Q. Okeh.

A. That is the figure which I have placed upon the things which the Fleishackers gave and did and which the company would have been required to pay for, if paid in cash.

Q. All right, then we have got that out of the value of the common stock, at July 1, 1914. Is that where you want it?

A. No, it is not out but it is not in, in the sum of $400,000.

Q. Well, it is in, but it is some amount?

(Testimony of C. W. Platt.)

A. That is true. [969]

Q. You say those services are in there and they all culminate, do they not, in the ability to earn profits represented by that stock, isn't that so?

A. It seems to me that that stock would have—could have a value.

Q. You say——

A. It could have a value, independently of earning power.

Q. What value?

A. Whatever someone was willing to pay for it.

Q. Why would someone be willing to pay something for it, other than its earning power? I want to find out from you.

Mr. Laing: It seems to me, Mr. Examiner, we are getting pretty far into the realm of speculation.

Mr. Slaff: Why, I certainly agree with that, because that is exactly where Mr. Platt started when he got this $3,500,000.

Mr. Laing: Well, we have explored this long enough.

Mr. Slaff: No, we have not explored this long enough, Mr. Examiner, as far as I am concerned. Perhaps we have explored it long enough, as far as Mr. Laing is concerned.

Mr. Laing: I am perfectly willing that any matters that are material to this inquiry be brought out. But it seems to me we are getting into a field of speculative [970] inquiry that gets us nowhere.

The Trial Examiner: It seems to me, Mr. Slaff,

(Testimony of C. W. Platt.)

that a good deal of the cross examination is repetition of matters that we have previously gone into.

Mr. Slaff: Frankly, Mr. Examiner, I still do not know, nor do I have the slightest conception of where Mr. Platt and how Mr. Platt arrived at a figure of $3,500,000; and I want to know what the elements that went into that $3,500,000 are. I don't want just generalization. If this is Mr. Platt's idea of what somebody was willing to pay for this, I want to know why they were willing to pay that amount for it. and I have got a right to know.

The Trial Examiner: Of course that I understand that that is very important to the record.

Mr. Slaff: Sure.

The Trial Examiner: But——

Mr. Laing: Wouldn't it be in order for Mr. Slaff to ask Mr. Platt how he arrived at the $3,500,000, and let it go at that.

Mr. Slaff: I have been trying for a day and a half to find that out.

Mr. Laing: You have not asked him that question once, and this record will so show. You haven't asked that a single time.

Mr. Slaff: Well, if I have not, and I know I would [971] have assumed that you would have asked that, Mr. Laing, in your direct, so we would have some knowledge at the conclusion of your direct case on this subject.

The Trial Examiner: Perhaps it would save a little time if the witness will now state how he arrived at it.

(Testimony of C. W. Platt.)

Mr. Slaff: That is all right with me, sure.

The Trial Examiner: I think he has stated that, but rather than discuss that further, let the witness state the manner in which he arrived at this $3,500,000.

A. In my direct testimony I stated that I had arrived at my judgment based upon three indices of value. And the closest date to the date of July 1, 1914, which I have considered the time when the organization job was completed, was March 1, 1913, at which time, in an adversary proceeding the United States Board of Tax Appeals rendered a decision—

Q. Just a minute. Do you propose to testify now with respect to what Mr. Renz was going to testify to?

Mr. Laing: He was testifying as to how he fixes his value, which was the question you asked him.

Mr. Slaff: Is that what you propose to testify to? A. I do.

Mr. Slaff: Go ahead. He is going to testify to something that, as I understand, the Examiner refused to permit to be brought into this proceeding, when it was [972] offered directly, through another witness.

Q. Isn't that so?

The Trial Examiner: Did you make some reference to that in your direct, Mr. Slaff?

Mr. Slaff: Mr. Laing did, in a question which he put to him; he made some statement with respect to that.

(Testimony of C. W. Platt.)

The Trial Examiner: Well, go ahead, Mr. Platt.

A. The value placed by the United States Board of Tax Appeals as to the value of this stock as of March 1, 1913, was $22.50 a share, which upon 100,000 shares would be $2,250,000. I have already testified with respect to the prices at which this stock was quoted on the San Francisco Stock and Bond Exchange in 1916, which prices ran up to $25.00 a share, or, on a hundred thousand shares, $2,500,000.

Q. Why didn't you state the low, too, while you were at it? Well, never mind; it is in the record.

A. It is in the record.

Q. Yes.

A. Also we have the situation which took place in 1925 when, in an absolutely arms-length deal, the American Power & Light Company paid slightly more than $5,000,000 for the 100,000 shares of stock. And my judgment now is, in the absence of more definite information than can be contained in these three situations, the stock had, as of [973] July 1, 1914, a cash value of $3,500,000.

Q. And you testified as to all of that on your direct examination.

A. That is right; yes. [974]

(Printer's Note: Exhibit No. 61 is set forth in volume III.)

(Testimony of C. W. Platt.)

EXHIBIT No. 63

P. U. C. OREGON ORDER No. 3664

Before the Public Utilities Commissioner of Oregon

U-F-745

In the matter of the application of Northwestern Electric Company for an order approving reduction in par value of common stock and authorizing issuance and exchange of stock certificates pursuant thereto.

By a petition filed September 1, 1936, the above named applicant requests approval of reduction of the par value of its issued and outstanding 100,000 shares of common stock from a par value of $100.00 per share to a par value of $35.00 per share and seeks authority to issue new stock certificates expressing the new par value upon the surrender and cancelation of the certificates now outstanding.

Applicant states that the application is made by virtue of the jurisdiction vested in the Public Utilities Commissioner of Oregon by Chapter 441, Oregon Laws, 1933. Based upon the application and the records and files in the Commissioner's office, the Commissioner now makes findings of fact, as follows:

I.

Applicant is a Washington corporation, duly qualified to transact business in the state of Oregon and is a "public utility" within the meaning of said term as the same is defined by statute.

(Testimony of C. W. Platt.)

II.

Applicant has heretofore authorized and issued and for many years has had outstanding 100,000 shares of said common stock, representing an aggregate stated or par value of $10,000,000, which stock has been for many years prior hereto and is now carried on the balance sheet of said applicant as a liability in the amount of $10,000,000.00. The assets aside of applicant's balance sheet reflects a book value of applicant's plant and other assets in an amount equaling the aggregate of all liabilities, including the said $10,000,000.00 liability for said common stock. The instant application discloses that applicant's directors and officers are of the opinion that the aggregate fair present value of applicant's assets amounts to less than the aggregate of the liabilities of said corporation as disclosed by its balance sheet, including the said $10,000,000.00 of common stock, and that in their opinion the aggregate liability represented by said common stock should be reduced to $3,500,000.00, or to a par value of $35.00 per share for each of said 100,000 shares, and that by thus reducing the aggregate of liabilities upon said balance sheet the same will not exceed the fair present value of applicant's assets. The Public Utilities Commissioner of Oregon, from independent investigations of the applicant's property and business, has long been of the opinion and is now of the opinion that the balance sheet liability, in respect of said 100,000 shares of common stock, should

(Testimony of C. W. Platt.)

be substantially reduced or eliminated, and that the best interest of all concerned in the business, property and assets of the applicant will be served by making such reduction as proposed by the applicant.

III.

The application discloses that American Power and Light Company, the owner of all of said outstanding 100,000 shares of common stock, has offered to surrender the stock certificates now outstanding and in its hands expressing a $100.00 par value, and to accept in lieu thereof duly authorized and issued certificates expressing a par value of $35.00 per share.

IV.

The transactions proposed in this application do not involve the acquisition of any additional property or any increase in the capital stock or other liabilities of the applicant, but involve a substantial scaling down of said capital stock liability, with a corresponding writing down of the book value of applicant's assets.

V.

The said application contains no proposals having any bearing on the value of applicant's property for rate making, but said proposals have solely to do with the stated book value of said common stock and it therefore is neither necessary nor material to make any determination in this proceeding of the

(Testimony of C. W. Platt.)

actual cost or fair present value of the plant or other assets of the applicant.

Now, therefore, based upon the foregoing and the records and files herein, and the Commissioner being fully advised, it is

Ordered that the said application be and the same hereby is allowed; that the proposed reduction of the par value of applicant's authorized and outstanding 100,000 shares of common stock from $100.00 per share to $35.00 per share is approved without prejudice to any future action with respect thereto which the Commissioner is now or may be hereafter authorized by law to take; and that applicant hereby is authorized and empowered to issue certificates evidencing 100,000 shares of its fully paid and non-assessable common stock of said par value of $35.00 per share in exchange for and upon the surrender and cancelation of the certificates now outstanding, said new certificates to be substantially in the following form, to-wit:

No. COMMON STOCK .....Shares

NORTHWESTERN ELECTRIC COMPANY

Incorporated under the laws of the State of Washington

Authorized Capital Stock consists of 20,000 shares of Original Preferred stock and 100,000 shares of First Preferred stock, all of the par value of $100 per share, and 100,000 shares of Common stock of the par value of

(Testimony of C. W. Platt.)

$35 per share. Each share of stock has full voting rights.

This certifies that.....

is the owner of.....

fully paid and non-assessable shares of Common stock of the par value of $35 per share of Northwestern Electric Company transferable on the books of the corporation in person or by duly authorized attorney upon surrender of this certificate properly endorsed.

The First Preferred stock is entitled in preference to the Original Preferred and Common stocks to cumulative dividends at the rate of seven per centum per annum, and on liquidation or distribution of capital assets to the par value thereof and accumulated dividends. The Original Preferred Stock is entitled in preference to the Common stock to cumulative dividends at the rate of six per centum per annum, and on liquidation or distribution of capital assets to the par value thereof and accumulated dividends. The Original Preferred stock may be converted into First Preferred stock at the rate of nine tenths of a share of First Preferred stock for each share of Original Preferred stock.

Witness the seal of said corporation and the signatures of its duly authorized officers.

Dated.....

Secretary President

(Testimony of C. W. Platt.)

Provided, however, that neither this authorization and approval nor anything done pursuant hereto shall ever be construed or taken in any proceeding or action for any purpose as equivalent to a finding by the Commissioner concerning the cost or the fair value of the assets of the applicant or as having any relevancy to or bearing upon any determination of such costs or fair value for purposes of rate making or for any other purpose in respect to which the Commissioner may hereafter seek to determine the cost or fair value of applicant's assets or any thereof.

Done and dated at Salem, Oregon this 2nd day of September, 1936.

FRANK C. McCOLLOCH,
Commissioner of Public Utilities of Oregon

Attest:
[Official Seal] ELLA BLILER
Secretary

Office of the Public Utilities Commissioner of Oregon

CERTIFICATE

I, Ralph H. Mitchell, Secretary of the Public Utilities Commissioner of Oregon, do hereby certify that I have compared the foregoing and attached copy of P. U. C. Oregon Order No. 3664 with the original on file in the office of the Public Utilities Commissioner of Oregon, and that it is a full, true

(Testimony of C. W. Platt.)

and correct transcript therefrom and of the whole of such original.

In testimony whereof, I have hereunto set my hand and affixed hereto the seal of the Public Utilities Commissioner of Oregon this 11th day of July, 1940, at Salem, Oregon.

[Seal] RALPH H. MITCHELL
Secretary
Public Utilities Commissioner of Oregon

EXHIBIT NO. 64

Before the Department of Public Service of Washington, Division of Public Utilities.

No. 6969

IN THE MATTER OF THE APPLICATION OF NORTHWESTERN ELECTRIC COMPANY FOR AN ORDER APPROVING REDUCTION OF PAR VALUE OF COMMON STOCK AND AUTHORIZING THE ISSUANCE AND EXCHANGE OF COMMON STOCK CERTIFICATES PURSUANT TO SUCH REDUCTION.

FINDINGS OF FACT AND ORDER

By petition filed with the Department on September 1, 1936, The Northwestern Electric Company, applicant herein, a corporation duly organ-

(Testimony of C. W. Platt.)

ized under the laws of the State of Washington, engaged in business in the states of Washington and Oregon as an electrical public service company, as said term is used and defined in and by Chapter 151, Laws of 1933 of the State of Washington, seeks an order approving the reduction of the par value of applicant's authorized and outstanding 100,000 shares of common stock from $100.00 per share to $35.00 per share, or a total reduction of par value of $6,500,000.00; also authorizing the issuance and exchange of common stock certificates pursuant to such reduction.

Applicant states that the petition is filed pursuant to the provisions of Chapter 151, Laws of 1933 of the State of Washington.

The Department having examined and considered said application and relative data available in its files and records finds as follows:

I

Applicant has heretofore authorized and issued and has had outstanding for many years 100,000 shares of common stock of the par value of $100.00 each, representing an aggregate par value of $10,000,000.00, which stock is carried as a balance sheet liability in the amount of said $10,000,000.00. The assets side of applicant's balance sheet reflects a book value of applicant's plant and other assets in an amount equalling the aggregate of the liabilities including the full $10,000,000.00 in par value

(Testimony of C. W. Platt.)

of the common stock. The application states that applicant's present directors and officers are of the opinion that the aggregate fair present value of applicant's assets amounts to less than such aggregate of the balance sheet liabilities, including this $10,000,000.00 of par value of common stock, and believe that the liability in respect to these 100,000 shares of common stock should be reduced to $35.00 per share or an aggregate of $3,500,000.00, in order that such reduced aggregate of liabilities may not exceed the fair present value of applicant's assets. The Department from independent investigations made by it of the applicant's property and business, is of the opinion that the balance sheet liability in respect of said 100,000 shares of common stock should be substantially reduced, and that the interests of all concerned in the business, property and affairs of the applicant will be served by making such reduction in said liability.

II

In an application before the District Court of the United States for the District of Oregon, No. B-20133, the debtor (applicant herein) sought relief under the provisions of Section 77B of the Bankruptcy Act. In 1935 the Public Utilities Commissioner of Oregon and the Department of Public Service of Washington jointly appeared therein as provided in that statute and represented to the federal court at that time, that the book value assigned to this common stock was excessively

(Testimony of C. W. Platt.)

over-stated, and that the presence of such excessive figures of value had been and continued to be a serious detriment to the debtor and created a situation adverse to the public interest.

The Public Utilities Commissioner of Oregon and the Department of Public Service in that proceeding further represented to the United States District Court of Oregon that it would be to the best interests of the debtor (the applicant herein) and all other affected parties to completely reorganize the capital structure of the debtor and to adjust its obligations to the American Power and Light Company.

III.

It appears from the application that American Power & Light Company, the owner of the presently outstanding 100,000 shares of common stock, has offered to surrender the stock certificates which it now holds and owns representing the said 100,000 shares of common stock and to accept in exchange therefor duly authorized and issued certificates for 100,000 shares of fully paid and non-assessable common stock of the par value of $35.00 per share.

IV.

As the transactions proposed in this application do not involve the acquisition of any additional property, or any increase in the capital stock or other liabilities of the applicant utility, but on the contrary involve a substantial scaling down of said

(Testimony of C. W. Platt.)

capital stock liability, with a corresponding writing down of the book value of applicant's assets, and have no bearing on the value of applicant's utility property for rate making or other purposes for which the Department may be authorized to determine such value, the Department finds it neither necessary nor material for the purpose of this application to make any determination of the fair present value of the plant and other assets of the applicant.

Wherefore, based upon the foregoing and the records and files herein and being fully advised in the premises,

ORDER

It is ordered, that said application be and the same hereby is granted, that the proposed reduction of the par value of applicant's authorized and outstanding 100,000 shares of common stock from $100.00 per share to $35.00 per share is approved without prejudice to any future action with respect thereto which the Department is now or may be hereafter authorized by law to take; and that applicant is authorized and empowered to issue certificates evidencing 100,000 shares of its fully paid and non-assessable common stock of said par value of $35.00 per share in exchange for and upon the surrender and cancellation of the certificates now outstanding;

Provided, however, that neither this authorization or approval nor anything done pursuant thereto

(Testimony of C. W. Platt.)

shall ever be construed in anywise as a determination by the Department as to the value of said common stock, or as to a finding by the Department of cost or value of assets of applicant, or have any bearing or relevancy thereon. And that the approval of the Department herein to the issuance of 100,000 shares of fully paid non-assessable common stock of a par value of $35.00 per share, in exchange for and the surrender and cancellation of the 100,000 shares of common stock of a par value of $100.00 per share presently outstanding, shall never be construed in anywise other than its consent to a voluntary reduction by applicant of the stated value of its common stock.

And, further, that this intercorporate transaction between affiliated companies shall not in any manner be construed as estopping or precluding the Department from taking further action as it may determine proper at such time or times as may be deemed appropriate in order to enable it to carry out the duties imposed by law.

Dated at Olympia, Washington, this 3rd day of September, 1936.

DEPARTMENT OF PUBLIC SERVICE OF WASHINGTON

By FERD J. SCHAAF
Director

W. D. LANE
Supervisor of Transportation

RALPH J. BENJAMIN
Supervisor of Public Utilities

(Testimony of C. W. Platt.)

CERTIFICATE

State of Washington,
County of Thurston—ss.

I hereby certify that the foregoing and attached document is a full, true and correct copy of original findings of fact and order, dated September 3, 1936 in Cause No. 6969—In the Matter of the Application of Northwestern Electric Company for an Order approving reduction of par value of Common Stock and authorizing the issuance and exchange of Common Stock certificates pursuant to such reduction, now on file in the office of the Department of Public Service of Washington at Olympia.

In witness whereof, I have hereunto set my hand and affixed the seal of the Department of Public Service of Washington, this 15th day of July, 1940.

[Seal] A. E. ROTCHFORD
Secretary of the Department of
Public Service of Washington.

EXHIBIT NO. 65

BALANCE SHEET AS OF JUNE 30th, 1914

ASSETS	Item	Total
Permanent Long Term Investments:		
Cost of plant and equipment prior to July 1st 1914	$13,069,907.18	$
Construction work in progress	$ 14,714.36	$
Property devoted to other operations	$	$
Advances to System Utilities for construction & equipmt.	$	$
Investments in securities	$ 87,505.00	$14,072,126.54
Working Assets:		
Cash and deposits	$ 28,265.62	$
Due from consumers and agents	$ 32,776.22	$
Employes working fund	$ 2,250.00	$
Marketable securities*:		
815,000.00 Gold Notes in Treas.		
4,734,000.00 Gold Bonds Pledged	$ 5,549,000.00	$
Notes receivable	$ 593,506.46	$
Miscellaneous accounts receivable	$ 37,263.08	$
Other current assets	$ 280.00	$
Material and supplies	$ 21,633.93	$ 6,264,975.31
Accrued Income Not Due:		
Interest on Notes Receivable	$ 28,443.86	$ 28,443.86
Deferred Debit Items:		
Sinking fund assets	$	$
Reserve fund assets	$	$
Prepayments	$	$
Other deferred debit items:		
Unamortized Debt Discount & Expense	$ 135,279.69	$
Corporate deficit	$	$ 135,279.69
Grand Total Assets Side	$	$20,500,825.40

LIABILITIES

	Item	Total
Stock:		
Capital stock outstanding Common	$10,000,000.00	$
Premium on capital stock	$	$10,000,000.00
Long Term Debt:		
Funded debt 1st Mortgage 5% Gold Bonds	$ 4,734,000.00	$
Other long term debt 2 yr. 6% Collateral Gold Notes	$ 3,500,000.00	$
Working Liabilities:		
Installment on Bond Subscription	462,187.50	
Installment on Preferred Stock Subscription	400,275.00	9,096,462.50
Consumers deposits	$	$
Service billed in advance	$	$
Notes payable	$ 926,591.02	$
Accounts payable to system utilities	$	$
Miscellaneous accounts payable	$ 284,703.03	$
Other current liabilities	$	$ 1,211,294.05
Accrued Liabilities:		
Taxes accrued Interest on Funded Debt	$ 60,392.50	$
Other accrued liabilities	$ 3,987.19	$ 64,379.69
Deferred Credit Items:		
Reserve for accrued depreciation and amortization	$	$
Insurance and casualty reserves	$	$
Other deferred credit items	$	$
Appropriated surplus invested in Fixed Capital	$ 128,689.16	$
Corporate surplus unappropriated	$	$ 128,689.16
Grand Total Liabilities Side	$	$20,500,825.40

Remarks: *The above 4,734,000.00 Gold Bonds Pledged are to secure the full issue of 3,500,000.00 2 year 6% Gold Notes.

DETAILS OF CAPITAL STOCK

Classification	No. shares authorized	Par val. of shares	Total par val. authorized	Total amt. issued & outstandg	DIVIDENDS Rate %	DIVIDENDS Declared during year	DIVIDENDS Paid during year
1. Preferred							
2.							
3. Common	100,000	100.00	10,000,000.00	10,000,000.00		None	
4.							
Total							

DETAILS OF FUNDED DEBT

Nature of funded debt	Date of issue	When due	Total amt authorized	Amt issued and outstanding	Cash realized from issue	INTEREST Rate %	INTEREST Amount accrued during yr	INTEREST Amt paid dur. year
1. 1st Mtge. 5%								
2. Gold Bonds	7-1-12	7-1-1942	10,000,000.00	*4,734,000.00		5%		
3. 2 yr 6%								
4. Gold Notes	8-15-13	8-15-15	3,500,000.00	2,685,000.00	2,550,048.33	6%	139,442.50	79,050.00
Total								

*The above Bonds are pledged as collateral to secure the full issue of 3,500,000.00 Gold Notes.

INCOME AND CORPORATE SURPLUS OR DEFICIT ACCOUNT

		Item	Total
Operating Income:			
Operating Revenues		$146,225.10	
Deductions: Opr. Exps. Taxes & uncollectible operating revenues		$ 25,349.41	
Income from operations			$120,875.69
Non-operating revenue; (Net) (See detail)			$ 7,838.47
			128,714.16
Deductions from income:			
Interest deductions for funded debt	$		
Other interest deductions	$		
Other deductions from income (specify)	$		
Miscellaneous	$ 25.00		
Total Deductions		$	
Net Income			$128,689.16
Disposition of Net Income:			
Dividends %	$		
	$		
	$		$
Surplus or Deficit for the year			$
Surplus or Deficit at beginning of the year			$
Profit and Loss Adjustments during the year:			
Credit	$		
	$	$	
Debit	$		
	$	$	$
Invested in Fixed Capital			
Surplus or Deficit at close of year (as per balance sheet)			$128,689.16

(Testimony of C. W. Platt.)

Office of the Public Utilities Commissioner of Oregon

CERTIFICATE

I, Ralph H. Mitchell, Secretary of the Public Utilities Commissioner of Oregon, do hereby certify that I have compared the foregoing and attached copy of Page 2 (new) and page 4 (new) of the Annual Report of Northwestern Electric Company for the year ending June 30, 1914, as filed October 17, 1914, and verified by Messrs. W. E. Coman, Vice-President, and E. S. Richardson, Auditor with the original on file in the office of the Public Utilities Commissioner of Oregon, and that it is a full, true and correct transcript therefrom and of the whole of such original.

In Testimony Whereof, I have hereunto set my hand and affixed hereto the seal of the Public Utilities Commissioner of Oregon this 15th day of July, 1940, at Salem, Oregon.

[Seal] RALPH H. MITCHELL
Secretary
Public Utilities Commissioner of Oregon

(Testimony of C. W. Platt.)

EXHIBIT NO. 66

DETAILS OF CAPITAL STOCK

Common 4

Kind of stock	Total par value authorized	Par value one share	Total amount outstanding
Common	$10,000,000.00	$100.00	$10,000,000.00
Preferred	2,000,000.00	100.00	728,900.00

DIVIDENDS DURING YEAR

Kind of stock	Rate per cent	Accrued	Paid
Preferred	6%	$37,188.64	$37,188.64

DETAILS OF FUNDED DEBT

Nature of debt	Date issued	Date due	Amount authorized	Amount outstanding
First Mortgage 6% 20 Yr. Sinking Fund Gold Bonds	5/1/15	5/1/35	$10,000,000.00	$3,000,000.00

INTEREST DURING YEAR

Nature of debt	Rate per cent	Accrued	Paid
2 yr. 6% Gold Notes	6%	$118,892.91	$118,892.91
First Mortgage 6% 20 Yr. Sinking Fund Gold Bonds	6%	30,000.00	000

BALANCE SHEET

as of June 30th last preceding date on which report is filed

ASSET ACCOUNTS

Permanent and Long Term Investments:			
		1914	
101	Fixed Capital installed prior to July 1, 1913	$13,969,907.18	
102	Fixed Capital installed since July 1, 1913 1914	398,339.69	
103	Construction Work in Progress	7,472.41	
105	Property devoted to Other Operations		
106	Advances to System Utilities for Construction, Equipment and Betterment		
107	Investment Securities	233,778.95	
	Subtotal, Permanent and Long Term Investments		$14,609,498.23
Working Assets:			
108	(A) Cash	$ 686,145.84	
	(B) Special Deposits		
109	Due from Consumers and Agents	87,288.35	
110	Employees' Working Funds	1,000.00	
111	Marketable Securities		
112	Notes Receivable	390,048.50	
	Miscellaneous Accounts Receivable (Class C) (Class A and B Utilities will detail)		
	(A) Accounts with System Utilities		
	(B) Matured Interest and Dividends Receivable	29,943.13	
	(C) Other Accounts Receivable	33,168.70	
114	Other Current Assets		
115	Material and Supplies	28,346.18	

	Working Assets:		
108	(A) Cash	$ 686,145.84	
	(B) Special Deposits		
109	Due from Consumers and Agents	87,288.35	
110	Employees' Working Funds	1,000.00	
111	Marketable Securities		
112	Notes Receivable	390,048.50	
	Miscellaneous Accounts Receivable (Class C)		
	(Class A and B Utilities will detail)		
	(A) Accounts with System Utilities		
	(B) Matured Interest and Dividends Receivable	29,943.13	
	(C) Other Accounts Receivable	33,168.70	
114	Other Current Assets		
115	Material and Supplies	28,346.18	
	Subtotal, Working Assets		$ 1,256,040.70
116	Accrued Income Not Due		$
	Deferred Debit Items:		
118	Sinking Fund Assets	$	
119	Insurance and Other Reserve Fund Assets		
120	Prepayments (Class C)		
	(Class A and B Utilities will detail)		
	(A) Prepaid Rents — Note:		
	(B) Prepaid Taxes — Class C Utilities		
	(C) Prepaid Insurance — will not answer on	2,391.01	
	(D) Other Prepayments — these lines	336.11	
121	Unextinguished Discount on Capital Stock	110,702.50	
122	Unamortized Debt Discount and Expense	278,722.03	
123	Other Suspense	22,703.43	
124	Corporate Deficit		
	Subtotal, Deferred Debit Items		$ 414,855.08
	Total, Asset Accounts		$16,280,394.01

BALANCE SHEET (continued)

LIABILITY ACCOUNTS

Stock:			
151	Capital Stock	$10,728,900.00	
152	Premium on Capital Stock		
	Subtotal, Stock		$10,728,900.00
Long Term Debt:			
154	Funded Debt	$ 3,000,000.00	
155	Receiver's Certificates		
156	Advances from System Utilities for Construction, Equipment and Betterments		
	Installments on Bond & Stock Subscriptions	463,611.50	
	Subtotal, Long Term Debt		$ 3,463,611.50
			14,192,516.50
Working Liabilities:			
158	Consumers' Deposits	$	
159	Service Billed in Advance		
160	Notes Payable	1,766,824.96	
161	Accounts Payable to System Utilities		
162	Miscellaneous Accounts Payable (Class C)		
	(Class A and B Utilities will detail)		
	(A) Audited Vouchers and Wages Unpaid) Note:	157,779.55	
	(B) Matured Interest, Dividends and) Not for		
	Rents Unpaid) Class C		
	(C) Matured Funded Debt Unpaid) Utilities		
163	Other Current Liabilities		
	Subtotal, Working Liabilities		$ 1,924,604.51
Accrued Liabilities Not Due:			
165	Taxes Accrued	$ 26,223.33	
166	Other Accrued Liabilities Not Due	59,397.16	
	Subtotal, Accrued Liabilities Not Due		$ 85,620.49
Deferred Credit Items:			
168	Reserve for Accrued Depreciation	$ 556.80	
169	Reserve for Amortization of Intangible Capital		
170	Unextinguished Premium on Debt		
171	Insurance and Casualty Reserves		
	Reserve for Bad & Doubtful Accounts	4,089.13	
	Subtotal, Deferred Credit Items		$ 4,645.93
			16,207,382.43

(Liability Accounts continued on following sheet)

BALANCE SHEET (Concluded)

LIABILITY ACCOUNTS (Concluded)

			Common 5c
Appropriated Surplus:			16,207,382.43
173 Surplus Invested Since June 30, 1913, in Fixed Capital	$		
174 Surplus Invested in Sinking Funds			
175 Other Surplus Reserved			
Subtotal, Appropriated Surplus			$
Corporate Surplus:			
177 Corporate Surplus Unappropriated			$ 73,011.58
Total, Liability Accounts			$16,280,394.01

RECAPITULATION

Asset Accounts:		
Permanent and Long Term Investments	$14,609,498.23	
Working Assets	1,256,040.70	
Accrued Income not Due		
Deferred Debit Items, other than Corporate Deficit	414,855.08	
Corporate Deficit		
Liability Accounts:		
Stock		$10,728,900.00
Long Term Debt		3,463,611.50
Working Liabilities		1,924,604.51
Accrued Liabilities not Due		85,620.49
Deferred Credit Items, other than Corporate Surplus, Unappropriated		4,645.93
Appropriated Surplus		
Corporate Surplus, Unappropriated		73,011.58
	$16,280,394.01	$16,280,394.01

(Testimony of C. W. Platt.)

Office of the Public Utilities Commissioner of Oregon

CERTIFICATE

I, Ralph H. Mitchell, Secretary of the Public Utilities Commissioner of Oregon, do hereby certify that I have compared the foregoing and attached copy of pages 4, 5a, 5b, 5c of the Annual Report of Northwestern Electric Company for the year ending June 30, 1915 with the original on file in the office of the Public Utilities Commissioner of Oregon, and that it is a full, true and correct transcript therefrom and of the whole of such original.

In Testimony Whereof, I have hereunto set my hand and affixed hereto the seal of the Public Utilities Commissioner of Oregon this 22nd day of July, 1940, at Salem, Oregon.

[Seal] RALPH H. MITCHELL
Secretary
Public Utilities Commissioner of Oregon

(Testimony of C. W. Platt.)

EXHIBIT NO. 67

DETAILS OF CAPITAL STOCK

Common 4

Kind of stock	Total par value authorized	Par value one share	Total amount outstanding
Common	$10,000,000	$100	$10,000,000
Preferred	2,000,000	100	1,341,700

DIVIDENDS DURING YEAR

Kind of stock	Rate per cent	Accrued	Paid
Preferred	6%	$77,327.95	$77,327.95

DETAILS OF FUNDED DEBT

Nature of debt	Date issued	Date due	Amount authorized	Amount outstanding
First Mortgage 6%—20 year—sinking fund, Gold Bonds	May 1, 1915	May 1, 1935	$10,000,000	$3,750,000

INTEREST DURING YEAR

Nature of debt	Rate per cent	Accrued	Paid
First Mortgage 6%—20 year Sinking Fund, Gold Bonds	6%	$198,858.33	$191,358.33

BALANCE SHEET

Common 5a

as of June 30th last preceding date on which report is filed

ASSET ACCOUNTS

Permanent and Long Term Investments:			
101	Fixed Capital installed prior to July 1, 1914	$13,802,545.57	
102	Fixed Capital installed since July 1, 1914	646,332.06	14,448,877.63
103	Construction Work in Progress	17,030.40	
105	Property devoted to Other Operations	236,639.93	
106	Advances to System Utilities for Construction, Equipment and Betterment		
107	Investment Securities	233,896.50	
	Subtotal, Permanent and Long Term Investments		$14,936,444.46
Working Assets:			
108	(A) Cash	$ 26,677.76	
	(B) Special Deposits		
109	Due from Consumers and Agents	55,667.25	
110	Employees' Working Funds	850.00	
111	Marketable Securities		
112	Notes Receivable	396,882.05	
113	Miscellaneous Accounts Receivable (Class C) (Class A and B Utilities will detail)		
	(A) Accounts with System Utilities		
	(B) Matured Interest and Dividends Receivable	49,633.31	
	(C) Other Accounts Receivable	36,775.58	
114	Other Current Assets		
115	Material and Supplies	45,922.79	
	Subtotal, Working Assets		$ 612,408.74
116	Accrued Income Not Due		$

	Working Assets:		
108	(A) Cash	$ 26,677.76	
	(B) Special Deposits		
109	Due from Consumers and Agents	55,667.25	
110	Employees' Working Funds	850.00	
111	Marketable Securities		
112	Notes Receivable	396,882.05	
113	Miscellaneous Accounts Receivable (Class C)		
	(Class A and B Utilities will detail)		
	(A) Accounts with System Utilities		
	(B) Matured Interest and Dividends Receivable	49,633.31	
	(C) Other Accounts Receivable	36,775.58	
114	Other Current Assets		
115	Material and Supplies	45,922.79	
	Subtotal, Working Assets		$ 612,408.74
116	Accrued Income Not Due		$
	Deferred Debit Items:		
118	Sinking Fund Assets	$	
*119	Insurance and Other Reserve Fund Assets		
120	Prepayments (Class C)		
	(Class A and B Utilities will detail)		
	(A) Prepaid Rents) Note: (		
	(B) Prepaid Taxes) Class C Utilities (	763.34	
	(C) Prepaid Insurance) will not answer on (	2,533.96	
	(D) Other Prepayments) these lines (		
121	Unextinguished Discount on Capital Stock	258,292.50	
122	Unamortized Debt Discount and Expense	357,018.26	
123	Other Suspense	33,643.34	
124	Corporate Deficit		
	Subtotal, Deferred Debit Items		$ 652,251.40
	Total, Asset Accounts		$16,201,104.60

LIABILITY ACCOUNTS

Stock:			
151 Capital Stock	$11,341,700.00		
152 Premium on Capital Stock			
Subtotal, Stock			$11,341,700.00
Long Term Debt:			
154 Funded Debt	$ 3,750,000.00		
155 Receiver's Certificates			
156 Advances from System Utilities for Construction, Equipment and Betterments			
Subtotal, Long Term Debt			$ 3,750,000.00
Working Liabilities:			
158 Consumers' Deposits	$ 167.00		
159 Service Billed in Advance			
160 Notes Payable	820,000.00		
161 Accounts Payable to System Utilities			
162 Miscellaneous Accounts Payable (Class C)			
(Class A and B Utilities will detail)			
(A) Audited Vouchers and Wages Unpaid) Note:	47,241.07		
(B) Matured Interest, Dividends and) Not for			
Rents Unpaid) Class C			
(C) Matured Funded Debt Unpaid) Utilities			
163 Other Current Liabilities	3,066.75		
Subtotal, Working Liabilities			$ 870,474.82
Accrued Liabilities Not Due:			
165 Taxes Accrued	$ 25,730.85		
166 Other Accrued Liabilities Not Due	42,129.37		
Subtotal, Accrued Liabilities Not Due			$ 67,860.22
Deferred Credit Items:			
*168 Reserve for Accrued Depreciation	$ 433.68		
*169 Reserve for Amortization of Intangible Capital			
170 Unextinguished Premium on Debt			
171 Insurance and Casualty Reserves			
Reserve for Bad & Doubtful Accounts	1,236.08		
Subtotal, Deferred Credit Items			$ 1,669.76

*Attach add'l sheet showing detailed entries to Accts. 119-b, 168, and 169.

(Liability Accounts continued on following sheets)

BALANCE SHEET (Concluded)

		Common 5c
LIABILITY ACCOUNTS (Concluded)		
Appropriated Surplus:		16,031,704.80
173 Surplus Invested Since June 30, 1913, in Fixed Capital	$	
174 Surplus Invested in Sinking Funds		
175 Other Surplus Reserved		
Subtotal, Appropriated Surplus		$
Corporate Surplus:		
177 Corporate Surplus Unappropriated		$ 169,399.80
Total, Liability Accounts		$16,201,104.60

RECAPITULATION

Asset Accounts:		
Permanent and Long Term Investments	$14,936,444.46	
Working Assets	612,408.74	
Accrued Income not Due		
Deferred Debit Items, other than Corporate Deficit	652,251.40	
Corporate Deficit		
Liability Accounts:		
Stock		$11,341,700.00
Long Term Debt		3,750,000.00
Working Liabilities		870,474.82
Accrued Liabilities not Due		67,860.22
Deferred Credit Items, other than Corporate Surplus, Unappropriated		1,669.76
Appropriated Surplus		
Corporate Surplus, Unappropriated		169,399.80
	$16,201,104.60	$16,201,104.60

(Testimony of C. W. Platt.)

Office of the Public Utilities Commissioner
of Oregon

CERTIFICATE

I, Ralph H. Mitchell, Secretary of the Public Utilities Commissioner of Oregon, do hereby certify that I have compared the foregoing and attached copy of Pages 4, 5-a, 5-b and 5-c of the Annual Report of Northwestern Electric Company for the year ending June 30, 1916 as filed and verified by Messrs. W. E. Coman, Vice-President and General Manager, and A. N. Cudworth, Auditor, with the original on file in the office of the Public Utilities Commissioner of Oregon, and that it is a full, true and correct transcript therefrom and of the whole of such original.

In testimony whereof, I have hereunto set my hand and affixed hereto the seal of the Public Utilities Commissioner of Oregon this 17th day of July, 1940, at Salem, Oregon.

[Seal] RALPH H. MITCHELL
Secretary
Public Utilities Commissioner of Oregon

J. W. PENTNEY,

produced as a witness on behalf of the State of Oregon, being duly sworn, testified as follows:

Direct Examination

By Mr. Kurtz:

Q. Will you please state your full name and address for the reporter?

A. J. W. Pentney, Salem, Oregon.

Q. And you now are employed by the Public Service Commission of Oregon?

A. That is correct.

Q. Since what date?

A. Since April 15, 1937.

Q. What have been your duties while so employed?

A. I entered this service as Assistant Accountant, and in October, 1937, was promoted to Utility Auditor. In January of 1939 I was promoted to Senior Accountant. During my period of employment I have performed various duties, including office and field audits of reports and books of railroad and public utilities. Since October, 1938, in addition to other work, I have been in charge of the field examination made of the original cost studies [977] of the Northwestern Electric Co., the Pacific Power & Light Company and the Portland General Electric Company.

Q. Will you please give an outline of your education and experience?

(Testimony of J. W. Pentney.)

A. I was educated in the public schools at Roseburg, Oregon, completed a stenographic course at McMinnville College, McMinnville, Oregon, and a course in accounting at Behnke-Walker Business College, Portland, Oregon. I also completed a course in accounting and auditing, including the CPA coaching section, with the LaSalle Extension University, Chicago, Illinois. Prior to the World War, I worked as stenographer in several jobs and taught for two years in the Butte Business College, Butte, Montana. After my discharge from the army I taught for a year in Behnke-Walker Business College, Portland, Oregon, and left there to take employment with the Eccles interests. For about two years I kept railroad construction accounts in Portland, and then moved to Baker, Oregon, and worked as railroad accountant. In the fall of 1924, I was appointed general auditor for the Sumpter Valley Railway Company and Mt. Hood Railroad Company. In 1932 I moved to Hood River, Oregon, as auditor for the Mt. Hood Railroad Company. In January, 1934, I went back to Baker as general auditor for the Oregon Lumber Company, which position I held until November, 1935. For two months in [978] 1937 prior to securing employment with the Public Utilities Commissioner, I worked as an extra auditor for Price, Waterhouse & Company, public accountants, Portland, Oregon.

Q. You were in charge, were you not, of the field examination made by the staff of the Public Utili-

(Testimony of J. W. Pentney.)

ties Commissioner of Oregon of the reclassification of plant accounts of the Northwestern Electric Company as of January 1, 1937, submitted by the company to the Commissioner on June 12, 1939, pursuant to Electric Plant Instruction 2-D of the Uniform System of Accounts?

A. Yes, I was in charge of the field work.

Q. Was the work carried on jointly with the staff of the Federal Power Commission?

A. Yes, we worked in close collaboration with the Federal Power Commission on this work.

Q. Was there proposed a joint report on this investigation by the staffs of the two Commissions?

A. Yes.

Q. Is this report? A. Yes.

Q. And that report is in evidence here as Exhibit 3?

A. I believe that is the correct number.

Q. You also signed this report, did you not?

A. Yes, I signed the report.

Q. Now, Mr. Pentney, you heard Mr. O'Neil's testi- [979] mony about the method of procedure in general which was followed in the examination of the books and records of the Northwestern Electric Company. In order to avoid unnecessary duplication of testimony will you state if you wish to make any exception to his statements or to add anything thereto?

A. I have no exceptions to make. The Oregon Commissioner's files of exhibits and testimony in

(Testimony of J. W. Pentney.)

previous rate examinations by the State of Oregon were made available to Mr. O'Neil and, in my opinion, his statements relative thereto are consistent with information in the Commissioner's files.

Q. Now, with reference to specific exceptions made to the company's filed report. Let us take these in order. The first one is the suspension of some $35,000.00 claimed as interest during construction. What can you say as to your agreement to the adjustment of this item?

A. I took the position that the classification of a utility's accounts in conformity with utility plant instruction 2-D did not contemplate a complete restatement, or even a partial restatement, of the utility's accounting records in order to put into its fixed capital accounts all the component costs set forth in the classification. Accounting errors of course are always subject to [980] correction, but the classification is quite specific with reference to restoring items which had, as a matter of policy, been charged to operating expenses under the provisions of previous effective classifications of accounts. While the restoration of interest during construction would not involve past operating expenses, its omission could not be considered an accounting error, as the company had capitalized interest during construction both prior and subsequent to the restatement, and was subject to accounting classifications which permitted charging interest on company funds when used for construction purposes.

(Testimony of J. W. Pentney.)

Q. And what was your position with reference to the restatement of interest on average cash balances?

A. I am thoroughly in accord with the position outlined by Mr. O'Neil. The classifications of accounts to which the Northwestern Electric Company was subject permit the inclusion as a component cost of construction the net cost of borrowed funds used for construction purposes and a reasonable rate upon the utility's own funds when so used. The utility's own funds are currently used both for purposes of paying operating expenses, and financing construction expenditures. There is no segregation of the necessary cash balances into these two elements. It is usually recognized that such a segregation would be impracticable. Therefore, the company's own funds necessary [981] for current operations and construction needs have been considered as a part of the company's working capital on which the company earns a return the same as on its physical plant. For this reason the restatement proposed by the company would, in my opinion, result in a duplication of charges for which there is no support, either in the prior or effective classifications, or under generally accepted accounting principles.

Q. What are your views with regard to interest and taxes on construction material inventories?

A. The same general objection as to interest on cash balances.

(Testimony of J. W. Pentney.)

Q. Now, there has been considerable testimony about the restatement or claim for restatement as construction overheads of prior years' administrative and general expense. Is is your opinion that these additional administrative and general expenses are not proper overhead items under the provisions of the effective accounting classification?

A. Yes. Electric plant instruction 2-B of the Uniform System of Accounts specifically forbids such restatement of overheads which have been previously charged to operating expenses. However, in addition to this, general instruction 10 of the classification of accounts provides, "The charges to utility plant, operating expense and other [982] accounts for services and expenses of employes engaged in activities chargeable to various accounts, such as construction and operations, shall be based upon the actual time engaged in the respective classes of work, or in case that method is impracticable, upon a basis of a study of the time actually engaged during a representative period." I take the view that all information necessary to make a study of the time actually devoted to construction in periods now long past is not available and therefore an accurate restatement of construction overheads, even if permitted, is impossible. [983]

Mr. Laing: May I interrupt just a moment? I find difficulty in finding my way through this classification. The reference you have just made is to what?

(Testimony of J. W. Pentney.)

A. That is to electric plant installation, 2(b), and then also the general instruction 10. That is the general instruction in front of the classification.

Mr. Laing: That is the one I was looking for.

By Mr. Kurtz:

Q. Now, on page 24 of Exhibit 3 the following statement is made with respect to fees paid to affiliates. "In view of the fact that the profit included in the electric plant accounts through these fees can only be ascertained from extensive analysis of the books and records of the affiliated company, which analysis is beyond the scope of this examination, it has been concluded to recommend that the fees set forth be permitted tentatively to remain in electric plant accounts subject to such further consideration as may be deemed to be warranted at any time in the future."

Will you please state your reasons for concurring in that statement?

A. I concurred that the profit in the fees should be eliminated from the plant accounts for two main reasons: first, that in accordance with a general accounting theory for affiliates intercompany profit should be eliminated from [984] the cost of construction. The rendering of engineering and supervisory services by a holding company for, and the payment for them by, a subsidiary do not, in my opinion, constitute arms-length transactions, and the profit should not be permitted in fixed capital; second, cost as defined in the effective uniform

(Testimony of J. W. Pentney.)

system of accounts does not, in my opinion, include profit to the holding company in charges to the subsidiaries for the engineering and supervisory services. I concurred in the recommendation to leave the fees tentatively in the plant accounts because, while the books of the Northwestern Electric Company show the payment for the fees, the cost of rendering the service would no doubt have to be ascertained from the records of the affiliated companies. To examine the records of affiliated companies located in distant parts of the country is not practicable for a state regulatory body. In my opinion the matter of eliminating such profits from fixed capital accounts should be the subject of a special proceeding. [985]

J. L. KENNEDY,

called as a witness on behalf of the Oregon Commissioner, being first duly sworn, testified as follows:

Direct Examination

By Mr. Kurtz:

Q. Will you state your full name to the reporter?

A. J. L. Kennedy.

Q. And by whom are you employed?

A. The Public Utilities Commissioner of Oregon.

Q. In what capacity?

A. As chief accountant. [989]

(Testimony of J. L. Kennedy.)

Q. And as chief accountant for the Public Utilities Commissioner of Oregon you are in charge of accounting matters for the Commissioner?

A. Yes, I am.

Q. Your duties involve the examination, audit and review of annual reports, operating statements, budgets, and financial data filed with the Commissioner by the several utilities operating in the State of Oregon? A. That is correct.

Q. The Public Utilities Commissioner of Oregon publishes and releases comparative annual operating and other statistics for the several classes of utilities operating within the State of Oregon each year, does he not? A. Yes, he does.

Q. And the computation of such statistics is under your supervision?

A. That is correct.

Q. By compiling such information you rely upon the verified data contained in annual reports filed with the Commissioner in compliance with statutory requirements? A. Yes, we do.

Q. Are you familiar with the books and records of the Northwestern Electric Company and the manner in which the fixed capital accounts were recorded as of December 31, 1936, and subsequent thereto? [990] A. Yes, I am.

Q. Have you participated in audits made by the Public Utilities Commissioner of Oregon of the fixed capital accounts of the Northwestern Electric Company?

A. Yes, in connection with Cause U-F-526, which was a rate case before the Oregon Commissioner,

(Testimony of J. L. Kennedy.)

and in 1936 and also in 1937 further audits were made to bring the fixed capital accounts of the company on an adjusted basis down to December 31, 1936.

Q. Mr. Kennedy, as Chief Accountant of the Public Utilities Commissioner of Oregon you approved the report on the reclassification and original cost studies of electric plant as at January 1, 1937, of Northwestern Electric Company, which is Exhibit No. 3 in this proceeding?

A. I did.

Q. And you concur in the conclusions and recommendations set forth in this report?

A. Yes, I do.

Q. Have you heard the testimony of Mr. Charles W. Smith in this proceeding? A. Yes.

Q. Do you concur in Mr. Smith's testimony relative to the accounting principles involved herein?

A. Yes, I do.

Q. Have you heard the testimony of Mr. Melwood W. [991] Van Scoyoc in this proceeding?

A. Yes, I have.

Q. At the date the effective classification of accounts for electric utilities was adopted by the Public Utilities Commissioner of Oregon, January 1, 1937, you were employed by the Commissioner as Mr. Van Scoyoc's principal assistant?

A. Yes, I was.

Q. Did you participate in conferences held by the Commissioner with the accounting officers and

(Testimony of J. L. Kennedy.)

other officials of the several electric utilities prior to the adoption of the classification?

A. Yes, I did.

Q. At that time were you of the opinion that the new system of accounts was intended to require or would permit a reaccounting of the company's past expenditures?

A. No, I was not, and I wish to state that this question was not, to my knowledge, raised by any of the representatives of the several electric utilities attending said conferences.

Q. As a result of audits made by the respective staffs of the Oregon Commissioner and the Washington Department, the Northwestern Electric Company adjusted its fixed capital accounts as of December 31, 1936?

A. Yes, as stated by Mr. Van Scoyoc, the company's [992] records were adjusted and were in agreement by primary accounts with the findings of the respective staffs.

Q. In the audits made by the staff of the Oregon Commissioner or the staff of the Washington Department were any reinstatements made of items previously charged to income, as is now proposed by the company?

A. No, sir, there was no reaccounting as now proposed, and, to my knowledge, such a procedure was not contemplated.

Q. You have heard Mr. Pentney's testimony here and do you concur therein?

A. I do. [993]

EXHIBIT No. 54

Electric Utilities and Licensees
(Classes A and B)
Annual Report of
Northwestern Electric Company
Public Service Building, Portland, Oregon

To the Federal Power Commission for the year ended December 31, 1938.

Name, title, and address of officer or other person to whom should be addressed any communication concerning this report:

Will T. Neill, Rate Department Supervisor
Public Service Building, Portland, Oregon

Report for the year ended December 31, 1938

VERIFICATION

The foregoing report must be verified by the oath of the officer having control of the accounting of the respondent. It should be verified, also, by the oath of the president or other chief officer of the respondent. The oath required may be taken before any person authorized to administer an oath by the laws of the State in which the same is taken.

OATH

(To be made by the officer having control of the accounting of the respondent)

State of Oregon,
County of Multnomah—ss.

C. W. Platt makes oath and says that he is Treasurer of Northwestern Electric Company that it is his duty to have supervision over the books of ac-

count of the respondent and that to the best† of his knowledge and belief such books have, during the period covered by the foregoing report, been kept in good faith *in accordance with the accounting and other orders of the Federal Power Commission, effective during said period;** that he has examined the said report, and to the best of his knowledge and belief the information contained in the said report is, insofar as it relates to matters of account, in accordance with the said books of account; that he believes that all other statements of fact contained in the said report are true, and that the said report is a correct statement of the business and affairs of the above-named respondent in respect to each and every matter set forth therein during the period from and including January 1, 1938, to and including December 31, 1938.

C. W. PLATT

Subscribed and sworn to before me, a Notary Public, in and for the State and county above named, this 12th day of April, 1939.

My commission expires March 6, 1940.

H. N. BURNSIDE

[L. S. Use an impression seal]

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*Note—The italicized words may be deleted by respondent which are not public utilities within the purview of the Federal Power Act.

†Except as otherwise indicated in this report.

SUPPLEMENTAL OATH

(By the president or other chief officer of the respondent)

State of Oregon,
County of Multnomah—ss.

L. T. Merwin makes oath and says that he is president of Northwestern Electric Company; that he has examined the foregoing report; that he believes that all statements of fact contained in the said report are true, and the said report is a correct statement of the business and affairs of the above-named respondent in respect to each and every matter set forth therein during the period from and including January 1, 1938, to and including December 31, 1938.

L. T. MERWIN

Subscribed and sworn to before me, a Notary Public, in and for the State and county above named, this 12th day of April, 1939.

My commission expires March 6, 1940.

H. N. BURNSIDE

[L. S. Use an impression seal]

EXHIBIT No. 55

Electric Utilities and Licensees
(Classes A and B)
Annual Report of
Northwestern Electric Company
Public Service Building, Portland, Oregon
To the Federal Power Commission for the year ended December 31, 1939.

Name, title, and address of officer or other person to whom should be addressed any communication concerning this report:

Will T. Neill, Rate Department Supervisor
Public Service Building, Portland, Oregon

Report for the year ended December 31, 1939

VERIFICATION

The foregoing report must be verified by the oath of the officer having control of the accounting of the respondent. It should be verified, also, by the oath of the president or other chief officer of the respondent. The oath required may be taken before any person authorized to administer an oath by the laws of the State in which the same is taken.

OATH

(To be made by the officer having control of the accounting of the respondent)

State of Oregon,
County of Multnomah—ss.

C. W. Platt makes oath and says that he is Treasurer of Northwestern Electric Company that it is

his duty to have supervision over the books of account of the respondent and that to the best† of his knowledge and belief such books have, during the period covered by the foregoing report, been kept in good faith *in accordance with the accounting and other orders of the Federal Power Commission, effective during said period;** that he has examined the said report, and to the best of his knowledge and belief the information contained in the said report is, insofar as it relates to matters of account, in accordance with the said books of account; that he believes that all other statements of fact contained in the said report are true, and that the said report is a correct statement of the business and affairs of the above-named respondent in respect to each and every matter set forth therein during the period from and including January 1, 1939, to and including December 31, 1939.

C. W. PLATT

Subscribed and sworn to before me, a Notary Public, in and for the State and county above named, this 30th day of March, 1940.

My commission expires March 5, 1944.

H. N. BURNSIDE

[L. S. Use an impression seal]

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*Note—The italicized words may be deleted by respondents which are not public utilities within the purview of the Federal Power Act.

†Except as otherwise indicated in this report.

SUPPLEMENTAL OATH

(By the president or other chief officer of the respondent)

State of Oregon,
County of Multnomah—ss.

L. T. Merwin makes oath and says that he is President of Northwestern Electric Company; that he has examined the foregoing report; that he believes that all statements of fact contained in the said report are true, and the said report is a correct statement of the business and affairs of the above-named respondent in respect to each and every matter set forth therein during the period from and including January 1, 1939, to and including December 31, 1939.

L. T. MERWIN

Subscribed and sworn to before me, a Notary Public, in and for the State and county above named, this 30th day of March, 1940.

My commission expires March 5, 1944.

H. N. BURNSIDE

[L. S. Use an impression seal]

EXHIBIT No. 56

Annual Report of
Northwestern Electric Company
Public Service Building, Portland, Oregon
To the Public Utilities Commissioner of Oregon for the year ended December 31, 1938.

Name, title, and address of officer or other person to whom should be addressed any communication concerning this report.

Will T. Neill, Rate Department Supervisor
Public Service Building, Portland Oregon

(Year ended Dec. 31, 1938)

Annual Report to the Public Utilities Commissioner of Oregon

VERIFICATION

The foregoing report must be verified by the oath of the officer having control of the accounting of the respondent. It should be verified, also, by the oath of the president or other chief officer of the respondent. The oath required may be taken before any person authorized to administer an oath by the laws of the state in which the same is taken.

OATH

(To be made by the officer having control of the accounting of the respondent)

State of Oregon,
County of Multnomah—ss.

C. W. Platt makes oath and says that he is Treasurer of Northwestern Electric Company, that it is his duty to have supervision over the books of ac-

count of the respondent and to control the manner in which such books are kept; that he knows that such books have, during the period covered by the foregoing report, been kept in good faith in accordance with the accounting and other orders of the Public Utilities Commissioner of Oregon, effective during said period; that he has carefully examined the said report, and to the best of his knowledge and belief the information contained in the said report, insofar as it relates to matters of account, has been accurately taken from the said books of account and is in exact accordance therewith; that he believes that all other statements of fact contained in the said report are true, and that the said report is a correct and complete statement of the business and affairs of the above-named respondent in respect to each and every matter set forth therein during the period of time from and including January 1, 1938, to and including December 31, 1938.

C. W. PLATT

Subscribed and sworn to before me, a Notary Public, in and for the state and county above named, this 14th day of April, 1939.

My commission expires March 6, 1940.

H. N. BURNSIDE

Notary Public for Oregon.

[L. S. Use an impression seal]

My commission expires Mar. 6, 1940.

OATH

(By the president or other chief officer of the respondent)

State of Oregon,
County of Multnomah—ss.

L. T. Merwin makes oath and says that he is President of Northwestern Electric Company; that he has carefully examined the foregoing report; that he believes that all statements of fact contained in the said report are true, and that the said report is a correct and complete statement of the business and affairs of the above-named respondent during the period of time from and including January 1, 1938, to and including December 31, 1938.

L. T. MERWIN

Subscribed and sworn to before me, a Notary Public, in and for the state and county above named, this 14th day of April, 1939.

My commission expires March 6, 1940.

H. N. BURNSIDE
Notary Public for Oregon

[L. S. Use an impression seal]

My commission expires Mar. 6, 1940.

EXHIBIT No. 57

Annual Report of
Northwestern Electric Company
Public Service Building, Portland, Oregon

To the Public Utilities Commissioner of Oregon for the year ended December 31, 1939.

Name, title, and address of officer or other person to whom should be addressed any communication concerning this report.

Will T. Neill, Rate Department Supervisor
Public Service Building, Portland, Oregon

(Year ended Dec. 31, 1939)

Annual Report to the Public Utilities Commissioner of Oregon

VERIFICATION

The foregoing report must be verified by the oath of the officer having control of the accounting of the respondent. It should be verified, also, by the oath of the president or other chief officer of the respondent. The oath required may be taken before any person authorized to administer an oath by the laws of the state in which the same is taken.

OATH

(To be made by the officer having control of the accounting of the respondent)

State of Oregon,
County of Multnomah—ss.

C. W. Platt makes oath and says that he is Treasurer of Northwestern Electric Company; that it is

his duty to have supervision over the books of account of the respondent and to control the manner in which such books are kept; that he knows that such books have, during the period covered by the foregoing report, been kept in good faith in accordance with the accounting and other orders of the Public Utilities Commissioner of Oregon, effective during said period; that he has carefully examined the said report, and to the best of his knowledge and belief the information contained in the said report, insofar as it relates to matters of account, has been accurately taken from the said books of account and is in exact accordance therewith; that he believes that all other statements of fact contained in the said report are true, and that the said report is a correct and complete statement of the business and affairs of the above-named respondent in respect to each and every matter set forth therein during the period of time from and including January 1, 1939, to and including December 31, 1939.

C. W. PLATT

Subscribed and sworn to before me, a Notary Public, in and for the state and county above named, this 1st day of April, 1940.

My commission expires March 5, 1944.

H. N. BURNSIDE

[L. S. Use an impression seal]

OATH

(By the president or other chief officer of the respondent)

State of Oregon,
County of Multnomah—ss.

L. T. Merwin makes oath and says that he is President of Northwestern Electric Company; that he has carefully examined the foregoing report; that he believes that all statements of fact contained in the said report are true, and that the said report is a correct and complete statement of the business and affairs of the above-named respondent during the period of time from and including January 1, 1939, to and including December 31, 1939.

L. T. MERWIN

Subscribed and sworn to before me, a Notary Public, in and for the state and county above named, this 1st day of April, 1940.

My commission expires March 5, 1944.

H. N. BURNSIDE

[L. S. Use an impression seal]

EXHIBIT NO. 58

Northwestern Electric Company
Extract From the Minutes of Trustees' Meeting of April 12, 1915

On motion of M. Fleishhacker, seconded by A. M. Baldwin, the following resolution was unanimously adopted:

"Whereas, on June 12, 1912 at a special meeting of the trustees of this company duly called and held at the San Francisco office of the company a resolution of said trustees was unanimously adopted which provided in substance and effect that certain properties and other considerations be accepted by this corporation in full payment of the following common-stock subscriptions to-wit;

C M S Wood	1 share
Erskine Wood	1 share
H. H. Parker	1 share
B. S. DeYarmon	1 share
B. C. Condit	49995 shares, and

"Whereas thereafter the stock certificates representing the shares of stock above set forth were issued to said persons in an aggregate of 50,000 shares which said shares consisted of the additional 50,000 shares authorized to be issued by this corporation under legal proceedings duly had to this end; and;

"Whereas there was a valuable consideration for the issue of said additional 50,000 shares, as aforesaid, said consideration among other things consisting of valuable services rendered to said corporation by and for the benefit of the said persons

to whom said additional 50,000 shares were issued between the date of the first issue of 50,000 shares and the date of the said additional issue of 50,000 shares:

"Now, Therefore, Be It Resolved, that the said resolution of said trustees of this corporation adopted as aforesaid at said meeting of June 12, 1912, and the issue of said additional shares of stock under said resolution be, and the same are hereby, ratified, approved, and confirmed."

EXHIBIT NO. 59

Uniform Classification of Accounts for Electric Utilities, Gas Utilities, and Water Utilities
Prescribed by
Railroad Commission of Oregon

Adopted June 16, 1913. Effective July 1, 1913

Salem, Oregon

[State Seal.]

Salem, Oregon
Willis S. Duniway, State Printer
1913

Electric, Gas and Water Utilities. 9

miscellaneous losses or gains not provided for elsewhere. The Corporate Surplus or Deficit should be

shown on the balance sheet statement under account "Corporate Deficit" or under account "Corporate Surplus Unappropriated."

Fixed Capital.

10. Fixed Capital Defined.—By the fixed capital of a public utility (frequently termed the "Construction Account") is meant the property, both tangible and intangible, which is devoted to the accomplishments of the principal purposes of its business, and which has an expectation of life in service of more than one year from date of installation in service (exception being made in the case of hand tools and other small portable tools, that may be lost or stolen).

Fixed capital may be described as consisting of original capital, additions, betterments, and replacements, as defined below.

Original capital is the fixed capital installed or acquired prior to the beginning of regular operation by the utility. It includes the acquisition or construction of the plant necessary to begin the regular operation of its business. The cost of original capital should be charged to the appropriate sub-accounts under "Fixed Capital Installed prior to July 1, 1913," or under account "Fixed Capital Installed since June 30, 1913."

Additions are structures, facilities, equipment, and other properties added to those in service at the beginning of operations, and not taking the

place of any property of like purpose previously held by the utility. The cost of additions should be charged to the appropriate sub-accounts under account 101 "Fixed Capital Installed since June 30, 1913."

Betterments are mechanical changes in structures, facilities, or equipment which have as their primary aim and result the making of the properties affected more useful or of greater capacity than they were at the time of their installation or acquisition. The cost of such portion only of the changes incident to betterments as will, when added to the original cost of the property bettered, give the cost of replacement or reconstruction in present condition of the property as bettered should be charged to the appropriate sub-accounts under "Fixed Capital Installed since June 30, 1913." The remainder of the cost of the change should be classed as "Extraordinary Repairs" and be charged to the appropriate operating expense accounts.

Replacements are those installations or fixed capital which have for their purpose the substitution of one building, structure, pieces of equipment, or machinery for another which it has become necessary to retire, the substitute having substantially no greater capacity than the property replaced; also the extension of life period of franchises, patents, and other intangible fixed capital.

The cost of the fixed capital retired should be credited to the fixed capital accounts in which it is carried and the cost of the fixed capital installed

in place of fixed capital so retired should be charged to the appropriate sub-accounts under "Fixed Capital Installed since June 30, 1913."

10 Classification of Uniform Accounts

11. Cost to Be Actual Money Costs.—All charges made to fixed capital or other property accounts with respect to any property acquired on or after July 1, 1913, should be the actual money cost of the property. When the consideration actually given for anything with respect to which a charge is made to any fixed capital or other property account is anything other than money, the actual consideration should be described in the entry with sufficient fullness and particularity to identify it, and the account charged should be actual money value of such consideration at the time of the transaction.

12. Interest Accruing During Construction Period.—"Interest During Construction" should include only such proportions of the interest on funds used for construction purposes and of the discount and expense on funded debt as is equitably assignable to the period between the date of the issuance of securities and the time when the property acquired or the improvement made through such issuance becomes available for the service for which it is intended. The proportion of interest, discount, and expense thus chargeable should be that which the period prior to the completion or coming into service of the facilities or improvements constructed bears to the entire life of the securities issued.

13. Costs of Labor, Material, and Supplies.—The term cost as used in the fixed capital (or construction) account means the actual cost in money of labor and materials used in construction, or the actual cost in money of property acquired after construction, or if the consideration given is other than money, the actual money value of such other consideration at the time of the purchase. Cost of labor includes not only wages, salaries, and fees paid employees, but also the personal expenses of such employees when borne by the utility. Cost of material and supplies consumed in construction is the cost at the place where they enter into construction including cost of transportation and inspection when specifically assignable. If such materials and supplies are passed through storehouses, their cost entered in the account may include a suitable proportion of store expense.

14. Plant and Equipment and Other Property Purchased.—When any property in the form of a going or completed plant is purchased, an appraisal of the property so acquired should be made, and the different constituent elements of the plant (and equipment, if any) or other property acquired should be appraised at their structural value; that is to say, at the estimated cost of replacement or reproduction less deterioration to the then existing conditions through wear and tear, obsolescence, and inadequacy. If the actual money value of the consideration given for the plant or other property

was at the time of the acquisition in excess of such appraised value, the excess should be charged to account ..... "Other Intangible Capital," and the appraised value of the constituent elements should be charged to the appropriate fixed capital accounts as hereinafter designated. If the actual money value of the consideration given was not in excess of such appraised value, such actual money value should be distributed through the said accounts in proportion to the said appraised value of the constituent elements appropriate to the respective accounts.

Electric, Gas and Water Utilities. 11

Utilities should be prepared to furnish the Commission upon demand, a full report of the contract of acquisition, the consideration given therefor, the determination of the actual money value of such consideration if other than money, the appraisal, and the amounts charged to the respective accounts for each plant or other such item of fixed capital purchased. The purchaser is required to procure in connection with the acquisition of any such plant or other item of fixed capital all existing records, memoranda, and accounts in the possession or control of the grantor relating to the construction and improvement of such plant and to preserve such records, memoranda, and accounts until authorized by law to destroy or otherwise dispose of them.

15. Fixed Capital Withdrawn or Retired.—When any tangible fixed capital acquired prior to July 1, 1913, is withdrawn or retired from service for any cause, the amount at which it stands charged should be credited to the sub-account under account "Fixed Capital Installed prior to July 1, 1913," in which it is charged, and such amount plus the expenses incident to the retirement, less the value of salvage, should be charged to account 168 "Reserve for Accrued Depreciation," for the proportion applicable to the period covered by the reserve, and to account "Realized Depreciation not Covered by Reserves" for the remainder. Such portion only of the realized depreciation shall be charged to account "Reserve for Accrued Depreciation," as is due to life in service during the period for which the reserve was established; this portion may be estimated on the basis of the proportion which the life in service of the property in question after that date bears to its entire life in service.

The entry of the credit to the fixed capital account should cite by name and page of book or other record the original entry of cost of the thing withdrawn. If there is no such original entry, that fact should be stated in connection with the credit entry, and the actual amount originally charged should be credited. If such amount is not known, it should be estimated, the facts upon which the estimates is based and the name of the person by whom estimated should be shown, and the amount

thus estimated to be equivalent to the original charge in respect of such thing withdrawn should be credited to the fixed capital account involved.

When any tangible capital acquired subsequent to June 30, 1913, is withdrawn or retired from service for any cause the amount at which it stands charged should be credited to the fixed capital account in which it is charged, and such amount, plus the expense incident to the retirement, less the value of salvage, should be charged to account "Reserve for Accrued Depreciation."

The entry of the credit to the fixed capital account should cite by name and page of book or other record the original entry of cost of the thing withdrawn.

If the age of tangible fixed capital withdrawn or retired from service can not be determined for classification between account No. 101 "Fixed Capital Installed Prior to July 1, 1913," and account 102, "Fixed Capital Installed Since June 30, 1913," the property so retired should be treated as having been charged to the former account, and the necessary credits should be made to the subaccounts thereunder.

12 Classification of Uniform Accounts.

When any fixed capital is withdrawn or retired whose book value as carried in the fixed capital account has been reduced by writing off estimated depreciation, only that part of the realized depreciation which has not already been written off

should be charged to account "Reserve for Accrued Depreciation", or to account "Realized Depreciation Not Covered by Reserves."

When any fixed capital is withdrawn or retired whose book values is greater than the known or estimated cost such excess should be charged to account "Other Deductions from Surplus," and the realized depreciation should be charged as elsewhere directed.

If any fixed capital is sold for more than its original cost, the amount of depreciation, if any, accrued and credited to a reserve in respect thereof, should be determined as accurately as possible and charged to such reserve. The sum of the amount so charged and the excess of the selling price over the cost of the property should be credited to account "Miscellaneous Additions to Surplus."

Operating Revenues.

16. Operating Revenues Defined.—By "operating revenues" are meant all amounts of money which the utility receives or becomes lawfully entitled to recover for services rendered and as the return upon property used by the utility in its own operations. Credits to the various revenue accounts should be based upon the gross charges made for services rendered by the utility. Discounts allowed for prompt payment, correction of overcharges, over collections theretofore credited and afterwards corrected, authorized refunds on account of failure

in service, should be charged to the "Primary Revenue" account to which they relate.

Commissions paid to employees or others in lieu of salaries should be charged to the appropriate "Expense" accounts, and not to "Revenue" accounts.

Operating Expenses.

17. Operating Expenses Defined.—By "operating expenses" are meant those out-goes (including capital consumed) necessary to the maintenance of the organization of the utility, production of the commodity sold and the services rendered and to the collection of revenue.

Except where some other meaning is clearly specified in the definition of the operating expense accounts the following words wherever used have the meaning as stated below:

"Cost, means cash or money cost and not price based on term of credit."

"Labor means human services of whatever character."

"Cost of Labor includes wages, salaries and fees paid to persons for their services."

18. Repairs Defined.—Repairs as herein used consist of ordinary and extraordinary repairs. Ordinary repairs include replacements of minor or short lived parts of structures, equipment, or facilities; replacement of minor parts of structures or equipment, made necessary by reason of

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Text Explanatory of Fixed Capital Accounts for Electric Utilities.—Group B.

101. **Fixed Capital Installed Prior to July 1, 1913.**—This account is a summary of those accounts which include the fixed capital of the utility installed prior to July 1, 1913, and which is still in service at the date of the balance sheet.

The accounts representing the fixed capital of the utility as carried on its books at the close June 30, 1913, should be so designated upon the books of the utility as to show clearly that they relate only to fixed capital installed prior to the close of that date. No debits should be made to such accounts with respect to any property subsequently acquired, but the cost of such property should be charged to the accounts hereinafter provided. (See Sec. 10, page 9.)

Note.—In the reports to the Commission a statement will be required showing the names of the accounts for fixed capital actually carried by the utility on June 30, 1913, and the balances therein at the date of the report.

102. **Fixed Capital Installed Since June 30, 1913.**—This account is a summary of accounts Nos. F201 to F236, inclusive, which include the cost of fixed capital installed since June 30, 1913. The sum of the balances in accounts Nos. F201 to F236, inclu-

sive, as provided hereinafter, should be shown on the balance sheet statement under this account. (See Sec. 10, page 9.)

Intangible Capital.

E. 201. Organization.—Charge to this account all fees paid to governments for the privilege of incorporation, and all office and other expenditures incident to organizing the corporation or other enterprise and putting it in readiness to do business. This includes the cost of preparing and distributing prospectuses, the cost of soliciting subscriptions for stock (but not for loans nor for the purchase of bonds or other evidence of indebtedness), the cash fees paid to promoters, and the actual cash value at the time of organization of securities paid to promoters for their services in organizing the enterprise; counsel fees; cost of preparing and issuing certificates of stock, and cost of procuring certificates of necessity from State authorities, and other like costs. This account shall not include any discounts upon stocks or other securities issued, nor shall it include any costs incident to negotiating loans or selling bonds or other evidence of indebtedness.

Note.—Costs incident to preparing and filing certificates of authorization of increase of capital stock, and to the negotiation and issue of stock thereunder, are classed as additions. The cost of preparing and filing certificates of amendment of articles of incorporation is classed as a betterment. The cost of preparing and filing papers in connection with the

terms of incorporation or with reincorporation consequent upon reorganization shall be classed as a renewal.

E. 202. Franchise (Electric).—Charge to this account the amount (exclusive of any tax or annual charge) actually paid to the State, or to a political subdivision thereof, as the consideration for the grant of such franchise or right as is necessary to the conduct of the utility's electric operations. If any such franchise is acquired by mesne assignment, the charge to this account in respect thereof must not exceed the amount actually paid therefor by the utility to its assignor nor should it exceed the amount actually paid the government.

If any such franchise has a life of not more than one year after the date when it is placed in service, it shall not be charged to this account, but to the appropriate accounts in "Operating Expenses" and in "Prepayments", if extending beyond the fiscal year.

Payments made to the State or to some subdivision thereof as a consideration for granting an extension for more than one year of the life period of a franchise shall be classed as renewals. Those made as a consideration for franchise or extensions thereof covering additional territory to be operated as a part of an existing system shall be classed as betterments. If the franchises cover separate and distinct new enterprises the payments therefor shall be classed as original.

Note. Annual or more frequent payments in respect of franchises must not be charged to this account but to the appropriate tax or operating expense account.

E. 203. Patent Rights.—Charge to this account the cost of all rights (having a life of more than one year from the date when placed in service) acquired by the utility in or under valid patents granted by the United States to inventors for inventions and discoveries which are necessary to the economical conduct of the utility's electric operations.

Note. If a patent right is extended to cover a further period of time than that covered by the original grant, the cost of such extension is classed as a renewal. A patent right acquired for use in an existing system and necessary to the economical operation thereof is classed as an addition.

E. 204. Other Intangible Capital.—Charge to this account the cost of all other intangible capital devoted to electric operations. Entries of charges to this account shall describe the acquired property with sufficient particularity clearly to identify it, and shall also show specifically the principal from whom acquired and all agents representing such principal in the transaction; also the term of life of such property, estimated if not known, and if estimated, the facts upon which the estimate is based.

Utilities in Class C may consolidate these four accounts, carrying one account, "Intangible Capital".

Landed Capital.

E. 206. Land Devoted to Electric Operations.—Charge to this account the cost of the accounting utility's landed capital which is devoted

* * * * * * *

under construction; clerks in general offices engaged on construction accounts or work; rent and repair of general offices when rented, with the office expenses; insurance during construction; also all construction and equipment items of a special and incidental nature which can not properly be charged to any other account in this classification.

Note A.—This account may include a suitable proportion of store expenses when such expenses are not assignable to specific materials.

Note B.—This account shall not include any costs of organization, or any costs or discounts connected with the issue and disposal of stocks, funded debt, or other securities, and commercial paper.

G. 235. Interest During Construction.—Charge to this account the interest accrued upon all moneys (and credits available upon demand) acquired for use in connection with the construction and equipment of the property from the time of such acquisition until the construction is ready for use. Interest receivable accrued upon such moneys, and

credits shall be credited to this account. To this account shall also be credited discounts realized through prompt payment of bills for materials and supplies used in construction, unless such discounts are credited to the particular bills.

If any property with respect to which an interest charge is included in this account is withdrawn or retired from service, the amount of such interest (estimated, if not known) should be credited to this account and charged off as a part of the original cost of the property so retired. No interest upon expenditures for replacements or reconstruction should be included in this account or any other fixed capital account unless proper credits are made to the appropriate fixed capital accounts for any interest included in such accounts in respect of the property retired or withdrawn. (See Sec. 12, page 10.)

EXHIBI

COST OF PLANT

Items
Intangible:
Organization
Franchise
Patent Rights
Other Intangible Capital
Landed Capital:
Land devoted to electrical operations
Production Capital:
Power plant buildings
Power Plant Equipment:
Hydraulic power works
Hydraulic power plant equipment
Steam power plant equipment
Boiler plant equipment
Transmission Capital:
Transmission System:—Overhead
Underground
Submarine
Substation buildings and structures
Step-up and step-down transformers
Miscellaneous equipment
Transformation and Storage Capital:
Substation buildings and general structures
Substation equipment
Storage battery equipment
Distribution Capital:
Overhead system
Underground system
Line transformers and devices
Electric services
Electric meters
Substation equipment
Utilization Capital:

IBIT NO. 60

Entire System.

NT AND EQUIPMENT

	Cost at Beginning of year	Additions during year	Cost at close of year
	$	$	$ 56,317.48
	$	$	$ 5,615.35
	$	$	$ 2,475.60
	$	$	$10,435,453.07
	$	$	$ 214,942.50
	$	$	$ 839,962.74
	$	$	$ 188,494.88
	$	$	$ 166,109.42
	$	$	$ 143,793.67
	$	$	$ 302,043.05
	$	$	$ 1,093.84
	$	$	$
	$	$	$ 28,025.28
	$	$	$
	$	$	$ 65,641.37
	$	$	$ 52.55
	$	$	$ 1,186.53
	$	$	$
	$	$	$ 176,166.95
	$	$	$ 298,939.22
	$	$	$ 50,898.63
	$	$	$ 63,660.85
	$	$	$ 55,596.42
	$	$	$ 21,389.40

Miscellaneous equipment

Transformation and Storage Capital:

Substation buildings and general structures

Substation equipment

Storage battery equipment

Distribution Capital:

Overhead system

Underground system

Line transformers and devices

Electric services

Electric meters

Substation equipment

Utilization Capital:

Municipal street lighting system

Commercial lamps and lamp equipment

#Electric motors and heaters

General Capital:

General structures

General office equipment

General shop equipment

General store equipment

General stable and garage equipment

Telephone lines

Roads, trestles, bridges

Miscellaneous equipment

Undistributed Construction Expenditures:

Eng., Supt., Law, Injuries & Damages, Taxes &

Steam Heat Dist. System

Construction work in progress

Interest during construction

Total Cost of Plant and Equipment

#Includes only motors and heaters leased to co

	$	$	52.55
	$	$	1,186.53
	$	$	
	$	$	176,166.95
	$	$	298,939.22
	$	$	50,898.63
	$	$	63,660.85
	$	$	55,596.42
	$	$	21,389.40
	$	$	1,625.48
	$	$	414.21
	$	$	374.47
	$	$	8,943.41
	$	$	3,319.87
	$	$	1,047.55
	$	$	221.85
	$	$	4,334.54
	$	$	3,728.79
	$	$	127.30
	$	$	2,340.56
& Misc.	$	$	435,943.72
	$	$	167,396.47
	$	$	14,714.36
	$	$	225,153.98
	$	$	$13,984,621.54

consumers.

Office of the Public Utilities Commissioner of Oregon

CERTIFICATE

I, Ralph H. Mitchell, secretary of the Public Utilities Commissioner of Oregon, do hereby certify that I have compared the foregoing and attached copy of Page 3 of the Annual Report of Northwestern Electric Company for the year ending June 30, 1914, as filed October 17, 1914 and verified by Messrs. W. E. Coman, Vice-President, and E. S. Richardson, Auditor with the original on file in the office of the Public Utilities Commissioner of Oregon, and that it is a full, true and correct transcript therefrom and of the whole of such original.

In Testimony Whereof, I have hereunto set my hand and affixed hereto the seal of the Public Utilities Commissioner of Oregon this 15th day of July, 1940, at Salem, Oregon.

[Seal]

RALPH H. MITCHELL
Secretary
Public Utilities Commissioner of Oregon

EXHIBIT NO. 69

Northwestern Electric Com

DETAIL OF ADVANCES MADE BY A. FLEISHHA
NORTHWESTERN ELECTRIC COMPANY OR IT
MADE TO A. FLEISHHACKER & COMPANY, VO

		Advanced to
1910		
December	7	L. J. Scoofy, Expenses trip to Oregon
	15	L. J. Scoofy
	15	B. C. Condit
	29	B. C. Condit
	31	B. C. Condit
	31	B. C. Condit
	31	M. Fleishhacker—Tickets to Portland
	31	M. Fleishhacker—Sleeper to Portland
1911		
January	6	Telegrams—Condit—Portland
	12	J. N. Davis—Expense account
	18	L. J. Scoofy
	18	L. J. Scoofy—Account White Land
	18	L. J. Scoofy—Account Cram Land
	24	Refunded by J. N. Davis
	25	Crown Columbia Pulp and Paper Company account expenses R. L. Curen
	28	B. C. Condit
February	2	Telegram to B. C. Condit
	7	J. N. Davis
	7	L. P. Hornberger
	7	Newell Gossett and Walsh
	7	Newell Gossett and Walsh
	7	B. C. Condit
	14	Williams Wood and Linthicum
	21	Notary Fees
	23	B. C. Condit
	23	B. C. Condit
	23	B. C. Condit
	23	Rubber Stamp

ompany

HACKER & COMPANY TO THE
ITS AGENTS. REIMBURSEMENT
VOUCHER #219. MAY 13, 1912.

	Amounts	Totals
	202.00	
	450.00	
	250.00	
	114.75	
	167.15	
	153.45	
	40.00	
	10.00	1,387.35
	1.60	
	242.30	
	150.00	
	2,500.00	
	6,000.00	
	(18.00)	
any		
	28.95	
	225.15	9,130.00
	1.60	
	43.55	
	225.90	
	235.05	
	66.95	
	500.00	
	1,037.61	
	.50	
	85.60	
	250.00	
	250.00	
	.20	2,696.96

1911

January	6	Telegrams—Condit—Portland
	12	J. N. Davis—Expense account
	18	L. J. Scoofy
	18	L. J. Scoofy—Account White Land
	18	L. J. Scoofy—Account Cram Land
	24	Refunded by J. N. Davis
	25	Crown Columbia Pulp and Paper Company account expenses R. L. Curen
	28	B. C. Condit
February	2	Telegram to B. C. Condit
	7	J. N. Davis
	7	L. P. Hornberger
	7	Newell Gossett and Walsh
	7	Newell Gossett and Walsh
	7	B. C. Condit
	14	Williams Wood and Linthicum
	21	Notary Fees
	23	B. C. Condit
	23	B. C. Condit
	23	B. C. Condit
	23	Rubber Stamp
March	2	L. J. Scoofy account services
	9	Margarett White—Stenographer
	9	J. N. Davis
	9	Newell Gossett and Walsh
	9	Newell Gossett and Walsh
	13	Williams Wood and Linthicum
	13	L. P. Hornberger
	14	Telegrams to B. C. Condit
	15	B. C. Condit Telegraphic transfer
	23	Check to F. S. Forest—Portland
	28	B. C. Condit

	1.60	
	242.30	
	150.00	
	2,500.00	
	6,000.00	
	(18.00)	
any		
	28.95	
	225.15	9,130.00
	1.60	
	43.55	
	225.90	
	235.05	
	66.95	
	500.00	
	1,037.61	
	.50	
	85.60	
	250.00	
	250.00	
	.20	2,696.96
	500.00	
	8.70	
	113.90	
	10.40	
	600.75	
	88.55	
	166.80	
	1.30	
	2,000.50	
	500.00	
	232.80	4,223.70

(Exhibit No. 69—continued)

		Advanced to	Amounts	Totals
April	13	Williams Wood & Linthicum	139.77	
	13	Newell Gossett and Walsh	629.40	
	13	Margarett White—Stenographer	6.00	
	13	L. P. Hornberger	68.00	
	14	Taxes Cowlitz Co.—Washington	4.76	
	14	B. C. Condit telegraphic transfer	3,000.50	
	14	Taxes Clarke Co.—Washington	41.10	
	20	To cancel bank charges for telegram	(.50)	
	24	Telegrams to B. C. Condit	2.26	
	25	Ham, Yearsly & Ryrie	250.00	
	27	M. Fleishhacker trip to Portland	100.00	4,241.29

( ) Parentheses Indicate Red Figures.

1911				
May	1	B. C. Condit	265.20	
	8	B. C. Condit Telegraphic Transfer	3,000.50	
	11	B. C. Condit Telegrams	.50	
	11	Margarett White Stenographer	1.25	
	11	Williams Wood and Linthicum	24.05	
	11	L. P. Hornberger	32.20	
	11	Newell Gossett and Walsh	1,011.45	
	11	B. C. Condit—Telegraphic transfers	6,000.00	
	13	Telegrams	2.60	
	13	Telegrams to B. C. Condit	.50	$10,338.25
June	21	Williams Wood and Linthicum	221.17	
	26	Telegrams	5.96	
	27	Telegrams	2.25	
	27	First National Bank Portland	13,000.68	
	27	F. S. Forest	3,500.59	
	30	B. C. Condit	250.00	
	30	A. Fleishhacker & Co. 6 Mos. office expense	15.00	16,995.65
July	5	B. C. Condit—Telegraphic transfer	10,000.00	
	13	Williams Wood and Linthicum	2,786.22	
	13	B. C. Condit	926.15	
	14	Newell Gossett and Walsh	1,885.07	
	20	Ham Yearsly & Ryrie	15,000.00	30,597.44

1911				
May	1	B. C. Condit	265.20	
	8	B. C. Condit Telegraphic Transfer	3,000.50	
	11	B. C. Condit Telegrams	.50	
	11	Margarett White Stenographer	1.25	
	11	Williams Wood and Linthicum	24.05	
	11	L. P. Hornberger	32.20	
	11	Newell Gossett and Walsh	1,011.45	
	11	B. C. Condit—Telegraphic transfers	6,000.00	
	13	Telegrams	2.60	
	13	Telegrams to B. C. Condit	.50	$10,338.25
June	21	Williams Wood and Linthicum	221.17	
	26	Telegrams	5.96	
	27	Telegrams	2.25	
	27	First National Bank Portland	13,000.68	
	27	F. S. Forest	3,500.59	
	30	B. C. Condit	250.00	
	30	A. Fleishhacker & Co. 6 Mos. office expense	15.00	16,995.65
July	5	B. C. Condit—Telegraphic transfer	10,000.00	
	13	Williams Wood and Linthicum	2,786.22	
	13	B. C. Condit	926.15	
	14	Newell Gossett and Walsh	1,885.07	
	20	Ham Yearsly & Ryrie	15,000.00	30,597.44
Aug.	1	Telegrams	10.90	
	3	H. Fleishhacker—ticket to Portland	13.00	
	9	H. Fleishhacker—Expense Portland	125.00	
	18	Telegrams	5.79	
	22	B. C. Condit—Telegraphic transfer	10,000.00	
	26	Telegrams to B. C. Condit	.90	
	29	Telegrams to B. C. Condit	2.56	10,158.15
Sept.	1	Taxes Cowlitz County Washington	.41	
	18	Taxes Klickitat County Washington	1.58	
	20	B. C. Condit Telegraphic transfer	5,000.00	
	31	Telegram	.50	5,002.49
Oct.	20	Telegrams	4.55	
	24	Telegrams	1.95	6.50

(Exhibit No. 69—continued)

		Advanced to		Amounts	Totals
Nov.	6	Telegrams		2.85	
	15	Oregon Printing Company		5.00	
	15	Williams Wood & Linthicum		224.76	
	15	B. C. Condit		505.55	
	15	Newell Gossett & Walsh		1,391.10	
	15	Fobes Supply Co.		2.92	
	15	Lyle Trading Co.		42.45	
	15	George B. St. Lawrence		.75	
	15	Bass Hueter Paint Co.		7.00	
	15	Columbia Bridge Co.		5.76	
	16	B. C. Condit Telegraphic transfer		2,500.50	
	16	Telegrams		2.60	
	22	Northwestern Electric Company		10,000.00	
	22	Wind River Lumber Company		25,097.00	39,788.24
1911					
December	16	B. C. Condit Telegraphic transfer	N E Co.	14,500.50	
	23	Check to H A Mitchell	N E Co.	6,000.00	
	30	Check to H A Mitchell	N E Co.	5,000.00	
	30	A. Fleishhacker & Co. Staty		1.50	
	31	A. Fleishhacker & Co. 6 Mos. office expense		15.00	$25,017.00
1912					
January	8	Check to H. A. Mitchell	N E Co.	5,000.00	
	22	Anglo Calif. Trust Co. Telegrams		4.67	
	23	Expense M Fleishhacker—Portland trip		49.70	
	31	A. Fleishhacker & Co. Staty.		.25	5,054.62
February	20	Check to H A Mitchell	N E Co.	5,000.00	
	27	Check to H A Mitchell	N E Co.	5,000.00	
	29	A. Fleishhacker & Co. Staty.		2.00	10,002.00

1911				
December 16	B. C. Condit Telegraphic transfer	N E Co.	14,500.50	
23	Check to H A Mitchell	N E Co.	6,000.00	
30	Check to H A Mitchell	N E Co.	5,000.00	
30	A. Fleishhacker & Co. Staty		1.50	
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27	Check to H A Mitchell	N E Co.	5,000.00	
29	A. Fleishhacker & Co. Staty.		2.00	10,002.00
March 4	Anglo California Trust Co. Telegram		1.38	1.38
April 30	A. Fleishhacker & Co.		15.00	15.00
May 6	Anglo California Trust Co. Telegram		5.28	5.28
	Total advances by A. Fleishhacker & Company			174,661.30
	Interest @ 6% per annum on advances			7,176.59
	Total amount paid to A. Fleishhacker & Co.			181,837.89

Distribution

Accounts payable A. Fleishhacker Co.	52,485.49	(Advances NECo
Construction	129,352.40	(Balance B C 50,000.00
		(Condit Acct.) 2,485.49
Total	181,837.89	

MR. C. W. PLATT,

being recalled to the stand for further cross examination testified as follows, to-wit:

Cross Examination [1001]

Q. Now in your testimony yesterday at pages 931 and 932 the following questions and answers were made, beginning at the bottom of page 931: "Q. Now of this $400,000 that in the year 1933 was for the first time reflected on your books of account as organization expense—of that $400,000 only $100,000 dealt with promotional and executive and managerial services of the Fleischackers such as we have been discussing this morning, that is correct, is it not? A. Administrative and managerial. Q. Yes. A. Promotional had better be left out of that category." You so testified, did you not? A. I did.

Q. Now I would like to inquire of you whether you do not think that "promotional" had better be restored to that category?

A. To the extent that men in administrative and managerial positions are involved in field promotion, then it would be included.

Q. Yes. You have testified have you not, before the Oregon Commission in the rate case U. F. 526, more particularly [1003] at page 1217 thereof,—do you have that page before you? A. I do.

Q. Do you have your copy of the transcript in that case before you? A. I have.

(Testimony of C. W. Platt.)

Q. You testified, did you not, as follows: "The Fleischackers served as principal officers of the company, directing its promotion and development, also without compensation, other than the common stock. These services rendered by the two men should not be worth less than $30,000 a year for the two of them, and I have calculated the amount for the three and one-half years of promotion and development, up to July 1, 1914, at $100,000." You so testified there, did you not? A. I did.

Q. And you also testified before the Washington commission in the rate proceedings before that Commission, that we have discussed heretofore and more particularly at page 1654 of the transcript, as follows—do you have your copy of the transcript of that proceeding before you? A. I do.

Q. Now at page 1654 you testified as follows, did you not: "Q. So that the setting up of a compensation in your capitalization of $15,000 a year to them" that was to the [1004] Fleishackers, was it not? A. That is right. "to them would be just the same as though you had hired—the Company had hired them without any expenditure on their part to do the promoting? A. That is right." You so testified, did you not? [1005]

Q. You testified at page 966 that "There is the value that is inherent in a going concern"; and I take it that you were speaking of the value that you concede to be in back of or making up the value of three and a half million dollars that you placed

(Testimony of C. W. Platt.)

upon the common stock as of July 1, 1914. Is that right? A. That is right.

Q. Now, let us explore that, if you will, for a short while. As I understand your conception, that $3,500,000, represented the value to the business of the fact that the business was organized and doing a business or ready to do a business? Is that right? [1006]

A. Yes, any value that the stock had would have to take into account the fact that the organization was—the business was organized and ready to do business.

By Mr. Slaff:

Q. And according to your conception, take into consideration the fact that hazards had been overcome from the time of the organization or pre-organization period to July 1, 1914. A. Yes.

Q. And also the fact that the business at July 1, 1914, had customers attached? A. Yes.

Q. And the fact that the business at that time had a personnel, an operating personnel to run the business? A. Yes.

Q. And the further fact that the business at that time had a skilled management, able to manage the affairs of the business and run the electric utility business? [1007] A. Yes.

Q. All the elements which go into your conception of a going concern value of that business?

A. Yes.

(Testimony of C. W. Platt.)

Q. And the sum total of the value of all those elements which make up this going concern value, as you conceive it, was the $3,500,000 at July 1, 1914? A. Yes.

Q. Okeh. Now, then, what other elements——

A. (Interrupting) Excuse me just a moment.

Q. Yes, surely.

A. I am not sure that I got that whole question. If I may, will you let me have it again?

(Question and answer read as follows: "And the sum total of the value of all those elements which make up this going concern value, as you conceive it, was the $3,500,000 at July 1, 1914? A. Yes.")

The Witness: These things which we are just discussing under the head of "going concern value" were part of the things which would have to be taken into account.

By Mr. Slaff:

Q. Well——

A. (Interrupting) By anyone placing a cash value on those 100,000 shares of stock.

Q. So we will understand one another, I enumerated [1008] certain elements going into "going concern value" as you might conceive it. I did not want you to understand that I thought that those were the only specific elements that you might be able to enumerate, going in to make up "going concern value".

A. Then we understand each other.

(Testimony of C. W. Platt.)

Q. Now, what else was there in the value of the stock, other than the going value of the business?

A. I don't know what was in the minds of the people.

Q. Well, I mean to your knowledge, Mr. Platt. Was there anything else in there? [1009]

A. I will say that there must have been, or the values which attached to that stock and to which I have testified would never have been placed on it. I am not attempting to build up by individual items of value a judgment of my own as to the value of that stock. I am approaching it from the indices that are available of what other people thought it was worth.

Q. Well, but you have presented that, Mr. Platt, as your judgment—your judgment, not somebody else's, but you have sworn here in this courtroom that $3,500,000 was your judgment of the fair cash value of the stock at July 1, 1914?

A. Yes, and I have told you——

Q. (Interrupting) Didn't you?

A. Yes, and I have told you the basis upon which that judgment was arrived at, and it was not arrived at through an approach which your questions are indicating.

Q. Well, I am trying to find out what your approach was, that is all.

A. I have already indicated that.

Q. And also let me advise you that I am trying to find out what it was not, just so there will be

(Testimony of C. W. Platt.)

no misunderstanding between us and so you will be under no misconception, as you testify.

Now, then, you are not prepared to state, then, as I understand your testimony now, what the value of all the elements [1010] which went in to make the business a going concern on July 1, 1914, was?

A. I am not.

Q. You are prepared to state, are you not, that in your judgment it was at least considerably less than a million and a half dollars?

A. I am not willing to make any statement as to the cash value of this stock, based on any other premise than the three indices of value which I have given.

Q. Then, as far as you are concerned, in forming your judgment as to the cash value of the stock, you gave no specific consideration to the fact that the business was a going concern at July 1, 1914, is that right?

A. I did not ignore it, but I did not use it as a means of arriving at my judgment in the matter.

Q. That fact, then, did not enter into your determination of your judgment as to the cash value of that stock at that time?

A. It did not. I arrived at it on another basis.

Q. Now, you are today, are you not, right now, prepared to say,—or aren't you—that the going value of that business, as you understand that term, was considerably less than even a million and a half dollars at July 1, 1914? A. I don't know.

(Testimony of C. W. Platt.)

Q. Do you have any judgment whatever as to that? [1011]

A. I have not given it any study and am not expressing any judgment on that point.

Q. Well, based on such "reliable hearsay" as your own statement with respect to the going value of that business at December 31, 1932, and in the light of your statements in that respect, do you mean to tell us you are not prepared to say today that in your judgment the going concern value of Northwestern Electric Company at July 1, 1914, was considerably less than $1,500,000?

A. I have no opinion upon the matter at all.

Q. Oh, Mr. Platt, didn't you testify before the Oregon Commission in a rate proceeding that the going value of Northwestern Electric Company as you conceived it was $1,500,000 at December 31, 1932? You so testified, didn't you?

A. I don't recall such testimony.

Q. Okeh. Let's look at the record again. Do you have before you page 4523 to 4525, of your testimony in U-F-526 before the Oregon Commission?

A. I do not.

Q. Well, I have it before me and if you want to look at it you may, and suppose you tell me—you testified as follows, question by Mr. Laing, "Now what does she——"

A. Mr. Slaff, who was asking the question?

[1012]

(Testimony of C. W. Platt.)

Q. Mr. Laing. "Q. Now, what does sheet 14 of your exhibit,"—Exhibit 264, in that case, I believe "what does sheet 14 of your exhibit constitute, Mr. Platt? A. This is the value of the capital required in operations as of December 1931 and 1932. There have been listed therein the various items of operating fixed capital as shown in the last column of sheet 10 in the aggregate amount of $17,409,111.72. Two other items have been added, one being the working capital as shown on sheet 12 in the amount of $523,768, and a going value of the company, concerning which Mr. Willard has heretofore testified, his figure of the going value being $1,500,000 and including two items which here elsewhere in this statement on sheet 14, being the $100,000 of expense formed by the Fleishackers in the sale of preferred stock, and included by me in account 301, and $100,000 in round amounts, included in miscellaneous intangible capital, account 303, which was the development expense heretofore referred to by Mr. Lester's findings as $106,000—I have shown it just in round amount here. I think that these two sums $100,000 each should be deducted from the $1,500,000 of going value, which Mr. Willard testified to, for the reason that that much is elsewhere included in his statement. Q. Then, in other words, in trying to arrive at a value of the property, using the historical cost of the physical structures and [1013] business, you have added to your adjusted historical cost your working capital

(Testimony of C. W. Platt.)

and that part of the value representing its going concern value for which you would not have made any allowance in any of your previous items, is that right? A. That is right." Now then, does that refresh your recollection in that respect?

A. It does.

Q. And you did so testify? A. I did.

Q. And your recollection now is that you presented to the Oregon Commission, the exhibit, your conception of the going concern value of this company of December 31, 1932, as $1,500,000. That is correct?

A. No. That is Mr. Willard's conception, and I accept in my report, in my statement.

Q. And didn't you accept that as your estimate for the purposes of that case?

A. I think the record speaks for itself.

Q. Well, I am asking you. Why are you trying to duck out of that, Mr. Platt?

Mr. Laing: He is stating what the fact is, and it speaks for itself.

Mr. Slaff:

Q. Didn't you represent that as your judgment to the Oregon Commission? [1014] A. No.

Q. Did you concur in Mr. Willard's judgment with respect to that amount?

A. I didn't give it any study and therefore have no opportunity to concur with you.

Q. Is that the way your testimony in that case

(Testimony of C. W. Platt.)

and in this case is made up, by not giving study to solemn figures, or to figures which you solemnly present? A. No.

Q. Well, then you did give the matter consideration, didn't you, before you went on the stand, and swore to the figures, and presented them in exhibit form to the Oregon Commission, for the Commission to act on?

A. I adopted those for the purposes of compiling this statement, and showed the authority for that determination.

Q. But that was your determination of the adjusted historical cost of the company, to be used by the Commission in its determination of value for rate making purposes, wasn't it? Isn't that so?

A. That is so.

Q. Certainly.

A. Bearing in mind that I did not offer any testimony nor attempt to show how the million and a half was arrived at, other than by reference from Mr. Willard's study. [1015]

Q. Did you attempt to determine or to represent any value of the property whatever to the Commissioner?

A. I was responsible for the determination of historical costs. That is the thing that we were attempting to do in that proceeding.

Q. You were responsible, weren't you for a determination of the value on an historical cost basis, giving recognition to the element of going concern?

(Testimony of C. W. Platt.)

A. Giving recognition to that, but not costed historically.

Q. You are not subscribing to that recognition which you gave?

A. Only to the extent that the record indicates.

Q. And did you not at that time ascribe a value to the going concern element of the company as of December 31, 1932, of $1,500,000?

A. I adopted that.

Q. Did you subscribe to that? [1016]

Mr. Laing: I am quite prepared to agree, Mr. Slaff, that no one in behalf of the company claimed in that proceeding, which was a valuation proceeding, any greater sum than $1,500,000 for going concern value; that is at that time.

Mr. Slaff:

Q. Now, then, in view of the statement that has just been made by Mr. Laing, in view of your testimony here just now, and what we have gone over in your testimony in the Oregon case, page 4523 and 4524, are you now prepared to say that the going concern value of the Northwestern Electric Company, at July 1, 1914, was considerably less than $1,500,000?

A. I am not prepared to evaluate the going concern value of the company of July 1, 1914.

Q. Would you be good enough to repeat the question, Mr. Reporter?

(Last question read.)

(Testimony of C. W. Platt.)

The Trial Examiner: What was his answer, Mr. Reporter?

(Read.)

Mr. Slaff:

Q. Is that the best answer you have to that question?

A. That is the only answer I have to it.

Q. O. K. Now then, as chief financial official of [1018] this company and as one who has been connected with its business affairs for a good many years, and the business affairs of other companies, do you mean to tell us that, on the basis of a determination of your company officials and I think by yourself, of the going concern value of your company at December 31, 1932, of $1,500,000, you are not prepared to say today that the going concern value of that business at July 1, 1914, must have been considerably less than that?

A. As to what it was, I have no present information as to the value of it at that time.

Q. You can sit there and tell us, Mr. Platt, that you are not prepared to say that the going concern value must have been considerably less at July 1, 1914, than at December 31, 1932?

A. In the interim, Mr. Slaff, between those two dates, a great many things had taken place in the affairs of the company, in the economic situation of the community that it served, and in order to arrive at an answer to your question I would have

(Testimony of C. W. Platt.)

to take into account all of those things which have any bearing on it.

Q. Well, in your judgment, the management of the company in 1932 was at least as good or better than it was in 1914, isn't that right?

A. I can subscribe to that. [1019]

Q. Certainly. So the affairs of the company, as far as they were being run, were being run as well or better in 1932 than they were in 1914, that is right, isn't it? A. That is right.

Q. Now the generally economic condition of Portland at this general area was as good for business in 1932 as it was in 1914, was it not?

A. I think we all know that we were in the depths of a depression in 1932.

Q. Now how about answering the question? Well, let us put it in another way if you don't want to answer it in just that way. You had a much larger business in 1932 than in 1914? A. We did.

Q. You had many more hazards that had been overcome than those that had been overcome by 1914?

A. Yes.

Q. You had many more attached customers, isn't that so? A. That is right.

Q. Just speaking of operating personnel, you had a much better operating personnel, men who had been trained with the company and who had been with it for many years, isn't that so?

(Testimony of C. W. Platt.)

A. Yes. [1020]

Q. With respect to every one of the elements that goes into your conception of going concern value, Mr. Platt, isn't it a fact that in 1932, as of the time when you fixed that—or that going concern value of $1,500,000 was fixed by your company, with respect to every single element that goes into your conception of going concern value, Northwestern Electric Company was in a better position in 1932, than at July 1, 1914, isn't that a fair statement?

A. I have referred to some things that you have not enumerated, namely, the economic condition of the community and there obviously might be many other things.

Q. Go ahead and tell us many of these other things that are so obvious, where the condition of Northwestern Electric Company was worse in 1932 than it was in 1914.

A. The point of all this——

Q. No, go ahead and tell us some of these very obvious things, will you? You said there were a great many other things that were obvious in this connection. Now go ahead and tell us some of them.

A. I am not prepared to enumerate them. That fact——

Q. Well, is it so obvious that you cannot enumerate them?

A. That arises out of the fact that I have given the matter no study.

(Testimony of C. W. Platt.)

Q. When they are so obvious, Mr. Platt, you told us [1021] they are so obvious——

The Trial Examiner: Had you finished your answer, Mr. Platt?

A. I can't enumerate any.

Q. Maybe they are not so obvious, is that right?

A. That is true, and would be developed only by a study.

Q. O.K. Now then, to get back to these elements that go into your conception of going concern value, isn't it a fair statement that every one of the elements that you can think of,—that with respect to every one of the elements, that you can think of now, your company was in a better position in 1932 than in 1914. Isn't that a fair statement, Mr. Platt?

A. I don't know and I could not reach any conclusion on it unless I studied it as a problem and took into account everything that might develop in the course of that study.

Q. Is that the very best you can give us, Mr. Platt? A. That is.

Q. Now in the proceedings before the Oregon and Washington commissions that we have previously discussed, the point of your testimony with respect to the common stock and the consideration the company received for it, and testimony of that nature, was to determine the amount that was [1022] to be entered in the fixed capital accounts of the company, isn't that so? A. Yes.

(Testimony of C. W. Platt.)

Mr. Laing: In the operating fixed capital account.

Mr. Slaff: Well, we will break it down a step further.

Mr. Slaff:

Q. To determine a certain amount that was to be entered in the operating fixed capital account?

A. Yes.

Q. That was what amount?

A. $400,000.

Q. And what was to be done with the balance?

A. It was to be set aside and omitted from the statement of operating fixed capital.

Q. Now you were attempting to determine, then, the cost of those services to Northwestern Electric Company, and not to anyone else, of course?

A. Yes.

Q. As far as the Oregon Commission was concerned, it decided, did it not, that no part of that $400,000 should go into the fixed capital accounts of the company in connection with the alleged service rendered by the promoters? A. Yes. [1023]

Q. Now your testimony in this connection in this proceeding is designed to state how much, in your judgment in that connection should go into the fixed capital accounts of the company, is that correct?

A. In the reclassification of accounts, yes. [1024]

(Testimony of C. W. Platt.)

Q. And your testimony in this case is that amount should be $3,500,000? A. Yes.

Q. And that is predicated upon what you allege to be the value of the stock at July 1, 1914, is that right? A. Yes.

Q. Now, you testified in the Oregon proceedings, did you not, as to the value of this stock, the value of this stock at $400,000? A. No.

Q. Did you not in the Oregon proceeding testify as to the value of the stock at $400,000?

A. I testified as to the value of the services, and their value to the Northwestern Electric Company if this company had paid for those services in cash?

Q. Let me see if I get it straight. In this case, in this present proceeding, your testimony is that the value assignable to this common stock at July 1, 1914, is $3,500,000?

A. That is right.

Q. In the Oregon case did you not testify that the value assignable to the common stock was $400,000? Is that correct? [1025]

A. No. I said the cash value of the services rendered was $400,000, for which the 100,000 shares of common stock were issued.

Q. Now, will you turn to your testimony at page 1406 of the Oregon case, U-F-526, and I ask you whether Mr. Laing did not put this question to you and you did not make this [1026] answer.

The Trial Examiner: 1406?

(Testimony of C. W. Platt.)

Mr. Slaff: 1406, yes.

By Mr. Slaff:

Q. "Q. (By Mr. Laing) And of course if the company by virtue of its further services or building up of a successful and integrated enterprise has acquired what might be called a 'going value in addition to a surplus why, what originally represented a value assignable to the common stock might be greater considerably than the $400,000 which you appraised it at in 1915 or '17, might it not? A. It might." You so testified, did you not?

A. I did.

Q. And you continued: "In other words, there may have been some appreciation in the property in some degree to offset this stealing down"—which I take was "scaling down"——

Mr. Laing: Scaling down.

By Mr. Slaff:

Q. (Continuing) "——scaling down as of 1915, or '16 you are applying to the $10,000,000, might there not?

"A. That is correct."

You so testified, did you not? A. I did.

Q. And that was under examination by your own counsel [1027] in that case, wasn't it?

A. Yes.

Q. You also testified in the Washington case that what you were trying to follow was the value of the common stock? Isn't that so? Do you recollect now whether you did so testify, Mr. Platt?

(Testimony of C. W. Platt.)

A. I have already said that I testified as the transcript was read.

Q. No, no, I am speaking of the Washington case now. A. The Washington case?

Q. Yes.

A. I don't know, but I imagine I testified similarly in the Washington case.

Q. Yes. I call your attention to page 1652 and 1653 of the transcript in the Washington case and ask you whether this question was not put to you and you did not make this answer: "Q. Well, let's assume, instead of assuming that it was all for the benefit of the Northwestern Electric Company, that this arrangement was equally beneficial to the Fleishackers. Just assume that. Would you, nevertheless, say that the Northwestern ought to pay on the basis of it having been beneficial solely to the Northwestern?

"A. The only way it could benefit Fleishackers would be through the common stock, and that is a thing we are trying to find the value of." [1028]

You so testified in the Washington case, did you?

A. I so testified in that proceeding.

Q. Just so that our record may be complete on a point in connection with our discussion of "going concern value", will you simply state, Mr. Platt, whether in the Oregon case, U-F 526 you also testified as follows at page 4524 and 4525? Do you have that before you? A. I do not.

(Testimony of C. W. Platt.)

Q. "And adding these elements of values of the cost of the property up to December 31, 1932, you get a total of $19,232,879.72?

"A. Yes. sir. [1029]

"Q. And against that you apply the net credit balance and the retirement reserve as of that date?

"A. As of December 31, 1932, in the sum of $1,477,046.54, leaving a net of $17,755,833.18.

"Q. Which is the sum that you would ascribe by way of value to this property, if that value was to be derived from the historical cost with recognition of the going concern value?

"A. Yes, sir.

You did so testify, did you not?

A. I did.

Q. Now, I think you have testified, just before the recess, that, in the Washington case, you had testified: "The only way it could benefit Fleishackers would be through the common stock, and that is the thing we are trying to follow the value of." Now, in the Washington case you were unable to find anything to support the balance of the $10,000,000, or the $9,600,000, isn't that correct?

A. Yes, bearing in mind that we were attempting at that time to find a prudent historical cost.

Q. You were trying to find values on that basis? Would that be a more accurate statement?

A. No, the transcript, if it were followed through carefully from the beginning to end, would reveal that we were attempting to find the prudent historical cost of the [1030] property.

(Testimony of C. W. Platt.)

Q. Well, were you trying to find anything different in that case than you were in the Oregon case?

A. No, we were attempting to find identically the same thing in the Oregon case.

Q. And that, as defined by your counsel and agreed to by you just in this last question, this last testimony of yours that you read from the Oregon case, was: "The sum that you would ascribe by way of value to this property, if that value was to be derived from the historical cost with recognition of the going concern value", isn't that so?

A. That is correct.

Q. Those were not words put into your mouth by anyone, were they? A. No.

Q. No. That, then, is a fair statement, is it, of what you were trying to determine in both those cases, i.e. value of the property to be derived from historical cost with recognition of the going concern value?

A. Yes, the prudent historical cost.

Q. Well, your——

A. (Interrupting) The word "prudent" does not appear there, but all the way through the proceedings——

Q. (Interrupting) Then if we amend that to read that what you were trying to find was "the sum that you would [1031] ascribe by way of value to this property if that value was to be derived from the prudent historical cost with recognition

(Testimony of C. W. Platt.)

of the going concern value", you would agree entirely that that was what you were trying to determine in both those cases?

A. Yes, with this further qualification: We were attempting to find the prudent historical cost although the word "value" was used, of the operating property of the company.

Q. Well, that was the sum. You ascribe certain sums to the value of that property, based, or that were to be derived from, prudent historical cost to recognition of going concern value, isn't that so? A. Yes.

Q. Now, in that connection you could find nothing to support $9,600,000 of the original $10,000,000 of common stock. A. That is correct.

Q. You testified, did you not, that you were not prepared to say whether there was any property at all back of that $9,600,000? Is that correct?

A. There was no cost—prudent cost, back of it.

Q. No. Didn't you testify that you were not prepared to say that there was any property at all back of that $9,600,000? [1032] A. Yes.

Q. Now, you had made a careful investigation at the time you testified in the Washington case, had you not? A. Yes.

Q. You testified in that case that you could not describe the things that bears the value of $9,600,000 that was included in your balance sheets, did you not? A. Yes.

(Testimony of C. W. Platt.)

Q. You testified in that case that you were not able to identify it, but that your failure to do that did not put you in a position at that time to take it off the books, speaking of the $9,600,000?

A. Yes.

Q. And when asked "Why not" you testified, "Because there is a stock issuance out against it". Isn't that so?

A. I don't recall the answer, but I am willing to accept that as the statement at that time.

Q. Do you have your testimony at page 1671 of the Washington record before you—particularly 1672 with special reference to the very last question?

Did you not testify with respect to the $9,600,000 as follows: "I am not able to identify it, but my failure to do that does not put me in a position at the present time to take it off the books.

"Q. Why not? [1033]

"A. Because there is a stock issuance out against it."

Did you not so testify? A. I did.

Q. And that was the only reason you gave as to why you were not in a position at that time to take that off your books? Is that right?

A. My testimony there, further than that, was follows: "To be frank——"

The Trial Examiner: From what page, Mr. Slaff, are you reading?

(Testimony of C. W. Platt.)

Mr. Slaff: Page 1673 of the Washington report.

The Trial Examiner: Of the Washington case?

Mr. Slaff: That is right.

A. (Continuing) "Q. To be frank, didn't you know as a matter of fact, there was no asset there at all?

"A. If there is I don't know what it is.

"Q. And you still carried it there in the face of the fact that you are unable to find it?

"A. Yes.

"Q. And it is not because you have not pursued the investigation far enough. In fact, your investigation was to determine what the value was there and you arrived at the figure of $400,000?

"A. I have merely sought up to this present date to identify the amount which pertained to the utility property." [1034]

Q. And you are seeking in this present proceeding to identify the amount that pertains to the utility property, are you not? A. I am.

Q. And you have identified that in this proceeding as an amount of $3,500,000?

A. That is right.

Q. Now in the Washington proceeding in 1934 you testified, I think, that you had made a complete investigation, a thorough investigation, to prepare yourself to testify?

A. I don't know. I assume that I did so testify.

(Testimony of C. W. Platt.)

Q. And at that time, as you have testified here just a few moments ago, you were not able to support——or you didn't know of any property at all but of the $9,600,000? A. That is right.

Q. Now all elements of property, that is what constitutes property is no different under the Federal Power System of accounts than under the effective Washington system of accounts, is it?

A. Nothing material to this proceeding, except that the definitions are more definite.

Q. Oh, yes, but——

A. (Continuing) And that naturally leads to make reference again to Instruction 3D, without reading it. [1035]

Q. Well, without going into the question of the determination of the cost of the elements of property, but the things that constituted property were the same under the then effective system of accounts of the state of Washington as they are under the present system of accounts of the Federal Power Commission, Exhibit 6? That is correct, isn't it?

A. Yes.

Q. Now you valued this property as of July 1, 1914, is that correct? At $3,500,000 in this present proceeding? A. Yes.

Q. Is that value in your judgment, or to your knowledge ascribable to that stock as of any other date?

A. I don't know. I have given that value as of a certain date, namely, July 1, 1914, and I have

(Testimony of C. W. Platt.)

not attempted to determine its value as of any other date.

Q. And not having attempted that, then you have no judgment with respect to its value at any other date; isn't that right?

A. That is right.

Q. Neither January 1, 1914, nor January 1, 1915? Is that right? A. That is right.

Q. Now April 1, 1914, nor September or October 1, 1914? A. No. [1036]

Q. Is that right? A. That is right.

Q. Nor any other time, for that matter. I will withdraw that. You testified in your direct testimony that it was your judgment that "the $3,500,000 determination of value shown in the Northwestern Company's reclassification report to the Commission is a fair determination of such value as of the time when the former directors of the company declared the entire 100,000 shares of stock to be paid up." You so testified, did you not, at pages 285 and 286 of your direct testimony in this proceeding?

A. I did.

Q. So then it is a fair statement to say that in your direct testimony you testified to a judgment of value of this stock as of a time at which you say now you have no judgment as to the value?

A. Actually in that statement I was making no distinction as to date within the period closely approximating the time when the company was deter-

(Testimony of C. W. Platt.)

mined to be an operating utility. I think that the difference in dates between July 1, 1914 and April 12, 1915 does not constitute—I will say spread a time that is consequential?

Q. April 12, 1915? A. Yes.

Q. We will come back to that date in a minute. You [1037] just testified to me here in response to a direct question that I put to you that you had not determined the value of this stock and that you had no judgment as to its value on April 1, 1914; isn't that right?

A. Yes, I made that statement. But as a matter of fact this organization of the Northwestern Electric Company proceeded from a period——

Q. Yes, you have told us that.

A. (Continuing) Of time.

Q. Yes, you have told us that, Mr. Platt. We are all familiar with your point of view and your statement in that respect. You have given us a figure of value of the stock, and you have given it to us as of a day certain. And I inquired of you whether you had any judgment as to that value as of any other time certain, and you said you had not, that is correct, is it not?

A. I made that statement.

Q. Now, as a matter of fact, when was the stock of this company declared to be paid up?

A. As has heretofore been said, the record made by the organizers and promoters of the company is

(Testimony of C. W. Platt.)

not a clear and satisfactory record. It becomes necessary in using such record as they made to determine what they were actually attempting to accomplish.

Q. Well, is your record—— [1038]

A. (Continuing) As I interpret that record now and as I have interpreted it in the past, the promoters undertook to do a job and they were continually occupied with that job.

Q. No, look, Mr. Platt, just answer the question. Do the records of the company show when the stock was first declared to be made up? Do they or don't they? A. They do.

Q. And what is the date as shown by the record?

A. June 12, 1912.

Q. And that, however, is not what you were referring to in your testimony at pages 285 and 286, and insofar as that testimony speaks of the time when the former directors of the company declared the entire one hundred thousand shares of stock to be paid up, that testimony is in error, is that right?

A. Well, what I meant there——

Q. Well—— A. That is in error.

Q. Yes, sure.

A. And what I meant there to say was that it was as of the time when the things which these incorporators attempted to do had been completed.

Mr. Laing: Will you read the question, please.

(Several last questions and answers read by the [1039] reporter.)

(Testimony of C. W. Platt.)

Mr. Laing: That is not what the record shows as to when the stock was paid up. I mean the question of fact. There is no reason to have any misunderstanding about it.

The Trial Examiner: In other words, if I understand it, Mr. Laing, the date that Mr. Platt gave is not the correct date?

Mr. Laing: There were two issues of stock, one for 50,000 shares that was declared paid up in June, 1912, and the other 50,000 shares was declared to be paid up in April, 1915.

Mr. Slaff:

Q. To go back to that June 12, 1912, you did go back to the minutes of June 12, 1912, didn't you, Mr. Platt, before making your answer in that respect?

A. I referred to notes that I had on the subject.

Q. Yes. And your answer that the stock was declared paid up at that time, or by that time, was intended to refer to the entire one hundred thousand shares?

A. No, that referred to the first fifty thousand shares.

Q. You have heard Mr. Laing's statement, and now you agree with that, is that right?

A. That is what the minutes show. [1040]

Q. All right. Now then, when was the full one hundred thousand shares of stock declared to be paid up as far as you are concerned?

A. At a meeting on April 12, 1915.

(Testimony of C. W. Platt.)

Q. Is that the first time the whole one hundred thousand shares were declared fully paid up?

A. There is no reference in the minutes prior to that date.

Q. When was the preferred issue authorized to be issued? A. In April.

Q. Of 1914? A. 1914.

Q. Wasn't your common declared to be paid up before the preferred was issued,—the whole one hundred thousand shares of common?

A. There is no reference in the minutes prior to——

Q. Is there a meeting of trustees or stockholders on April 8th, 1914?

A. There is no reference,——

Q. Is there such a meeting? A meeting of trustees or stockholders on April 8, 1914?

A. There is no reference — prior to April 12, 1915, which declares that the second fifty thousand shares have been fully paid up. [1041]

Q. Have you got the minutes of a trustees meeting or stockholders meeting on April 8, 1914?

A. I have.

Q. Now what is that, stockholders or trustees, or two separate meetings or a combined meeting?

A. It is a meeting of stockholders.

Q. Now is there any reference in there that the amount, the actual amount of the stock of the company actually paid in is ten million dollars?

(Testimony of C. W. Platt.)

A. May I have that question please.

(Question read.)

A. No.

Q. On April 24, 1914 was a certificate filed with the Secretary of the State of Washington with respect to the proposed inquiries providing for the issuance of preferred stock?

A. What was that date, please?

Q. April 24, 1914?

A. On or about that date.

Q. Now do you have that certificate?

A. I do not.

Q. Do you know whether that certificate filed with the Secretary of the State of Washington contains a statement that a resolution was passed at a stockholders meeting on April 8th, 1914, increasing the shares of capital stock to [1042] provide for preferred, and containing a recital that the amount of the capital stock of the company actually paid in was $10,000,000.

A. I do not. I don't have the reference before me.

Q. You can, I take it, verify that from your company minutes, at the luncheon recess?

A. I can.

Q. And if it should develop that that is so, as I have stated it to you, then it would be a fact that with respect to this statement that the first time the stock was declared paid up was in 1915, made

(Testimony of C. W. Platt.)

by both Mr. Laing and yourself, that statement would be incorrect?

Mr. Laing: Mr. Slaff, my reference was to a corporate resolution declaring it to be paid. I don't want to confuse you.

Mr. Slaff: Well, my understanding is that a certificate filed with the Secretary of the State of Washington contains the statement that the resolution passed at the stockholders meeting declares the stock—or contains a recital declaring the stock fully paid up. You can——

Mr. Laing: We can check that.

Mr. Slaff: You can verify that.

Mr. Slaff:

Q. Now, Mr. Platt, Instruction 3D of the Federal Power Commission, which you have referred to, applies to [1043] current accounting, does it not?

A. It refers to current accounting, and the order of the Commission for a reclassification, in my opinion, requires the company to make such reclassification, using the definitions stated herein.

Q. All right. Now let me put this problem to you in connection with your current accounting. Suppose or assume that you contract with a manufacturer—the General Electric Company—to install certain equipment for you by July 31, 1942, and instead of paying or agreeing to pay cash for that equipment you, today, give to the manufacturer one hundred shares of your preferred stock. How do you account for that transaction?

(Testimony of C. W. Platt.)

A. We would have to determine what the cash value of that stock was.

Q. As of what date?

A. That would depend upon the agreement between the parties as to whether it was to be as of the date when the contract was entered into or the date when the stock was to be issued.

Q. Now the only agreement between the parties is that the General Electric will install this equipment on July 31, 1942, in consideration of the receipt by General Electric today from your company of one hundred shares of the preferred stock of your company? [1044]

A. It would be today's date.

Q. Now then, suppose you want to hire a very good salesman for your new business department, and he agrees orally or in writing to work for you, beginning now. Now to July 31, 1942. He does not want a cash payment. He wants to be paid by you by the receipt by him today of one hundred shares of preferred stock of your company. How do you account for that transaction?

A. As of the date it was issued.

Q. You would determine the value of that stock, then, as of today, July 31, 1940, the date when it is issued under our assumption, rather than any other date, that is correct? A. That is correct.

Q. Now the figure of 3,500,000, which you say today is the value of the common stock, at July 1,

(Testimony of C. W. Platt.)

1914, also represents, does it not, the present total par value of the common stock outstanding?

A. It does.

Q. That par value was fixed when?

A. In the year 1936.

Q. And what was that supposed to represent?

A. That was proposed to represent the value of the assets of the company, less the depreciation reserve, the retirement reserve, and the surplus of the company. [1045]

Mr. Laing: And all other liabilities, also.

A. And all other liabilities.

Mr. Slaff: I would think so.

A. Classifying the preferred stock as a liability.

Q. In what way was that any different—in what respect was that any different from the value that was ascribable by you to the common stock at July 1, 1914?

A. The value which I am ascribing in this proceeding to the common stock of the company on July 1, 1914, is a value determined by such indices of its cash value as of that date that I could find.

Q. I am not speaking of the indices by which you arrived at a determination of that value, but I am asking you if the value of the common stock at July 1, 1914, was supposed to represent anything other than the assets less the retirement reserve, less surplus, less all liabilities, considering any preferred stock that may then have been outstanding as in the nature of a liability.

(Testimony of C. W. Platt.)

A. They are two entirely separable methods of approach used between the thing I am trying to do in this proceeding and what was done in 1936.

Q. But was the value supposed to represent anything else than what you have said the value fixed in 1936 was supposed to represent, and if so, what else?

A. I don't know, because the value that I have placed [1046] on the stock as of July 1, 1914, was arrived at by having recourse to what other people thought the stock was worth and forming my judgment on that basis, it has no reference to what may have been on the books as of that date. [1047]

Q. Apparently not.

Q. But the stock, the value of the stock at that time, regardless of how individuals—what methods individuals may have used to evaluate it in their own judgment—the value at that time represented nothing more than the net assets of the company or any valuation of the net assets of the company? Isn't that true?

A. It could not have represented more than what you might call the equity in the property.

Q. And that is what the evaluation at 1936 represented, when the par value was restated to $3,500,000, isn't that correct?

A. That is true except the two approaches were quite different in character.

Q. We are not considering at this time, I hope you understand, the method of arriving at the dollar

(Testimony of C. W. Platt.)

amount; at least I am trying to consider with you what is represented by the dollar amount that may be placed on the stock as value in each of the two years. Are we then in agreement, and didn't you just testify that what went in to make up the value of the common stock on July 1, 1914, was the equity in the property or the net assets of the property; and so, too, in 1936 what went into the value of the common stock was the equity in the property or the net assets in the property? [1048]

A. Yes, as arrived at by the methods employed.

Q. The method you employed in 1935 and 1936 was to attempt to determine the fair value of that equity? Is that right? A. That is right.

Q. And with respect to 1914, you have no idea whether the value which you have placed at $3,500,000 does or does not represent the fair value of the then existing equity, if any?

A. Yes, in my judgment it does.

Q. And your judgment is based solely upon certain indices of value which you have previously discussed, three such indices? A. That is right.

Q. Now, do you mean to tell us, Mr. Platt, that in arriving at your judgment figure which you have presented here of $3,500,000, the value of the common stock at July 1, 1914, that that was not based primarily upon the fact that the existing par value of your stock was that amount?

A. It was not.

(Testimony of C. W. Platt.)

Q. Was it based in any part upon that fact?

A. No, it was not.

Q. Just a coincidence, I suppose, that the two figures happened to come out identical?

A. It might be described as such.

Q. And it might fairly be described as such, might it [1049] not? A. I think so.

Q. Now, do you have your Walker's Manual here with you? A. No, I do not.

Q. Will you bring it along with you after lunch? [1050]

Mr. Laing: Mr. Examiner, just before the luncheon recess some inquiry was made as to whether there had not been a determination of some kind made by the trustees or directors of the company prior to April of 1915 as to paying up or declaring the second 50,000 shares to be paid up, and reference was made to a stockholders meeting of April 8, 1914, which Mr. Van Scoyoc had the impression adopted a resolution to that effect.

I have just exhibited these records to Mr. Slaff and would like to make a statement of what the record shows.

The Trial Examiner: Very well.

Mr. Laing: The stockholders meeting of April 8, 1914, was called for the purpose of authorizing an increase of the capital stock from $10,000,000 to $12,000,000, the additional $2,000,000 to consist of an issue of preferred stock.

The minutes reflect that there were present in person and by proxy the holders of 100,000 shares of the common stock, and at that meeting a resolution was adopted which reads as follows: "Resolved, that the capital stock of Northwestern Electric Company be and the same is hereby increased to 120,000 shares of the par value of $100 each, making a total capital of $12,000,000, of which 20,000 shares, representing $2,000,000 capital, shall be preferred stock bearing [1052] interest at the rate of 6% per annum," which is pretty good for preferred stock.

That was the only action taken at the stockholders meeting.

But, following that stockholders meeting which was held on April 8, a certificate of increase of capital stock was prepared and in due course was filed with the Secretary of State of the State of Washington; and in that certificate it is recited that this stockholders meeting was held; that at the meeting all of the capital stock was present; that this resolution which I have just read and which was quoted in the certificate was adopted by the unanimous vote of the stockholders. Then the certificate goes on to say this: "That the amount of the capital stock of the company actually paid in is $10,000,000; that the whole amount of the debts and liabilities of the company is $4,435,899.93; that the amount to which the capital stock was to be increased upon the filing of this certificate is 120,000 shares of the par value of $100 each, making a total capital of $12,000,000, of which 20,000 shares rep-

resenting $2,000,000 capital shall be preferred stock bearing interest at 6% per annum."

That certificate is signed by W. E. Coman as chairman of the meeting, and by B. Goodwin as secretary of the meeting, followed by the verification on behalf of Coman and Goodwin before a Notary Public at Vancouver, followed by the following [1053] certificate, which is not verified but which is attached to and becomes the closing part of the certificate: "We, M. M. Connor, Herbert Fleishacker and A. N. Baldwin, being a majority of the trustees of Northwestern Electric Company, hereby certify that the foregoing certificate is true and that said W. E. Coman and D. Goodwin were respectively the chairman and secretary of the meeting mentioned in that certificate", which is followed by their signatures.

Now, that document was filed in the office of the Secretary of State. I haven't the exact date of it, but according to my information it was within a few days following the 8th of April. I don't suppose the exact date is material.

Mr. Slaff: The 12th is the date, I think, which we have agreed upon. Thank you, Mr. Laing.

C. W. PLATT,

resumed the stand for further

Cross-Examination
(Continued)

By Mr. Slaff: [1054]

Q. Did you find that you had Walker's manual, Mr. Platt? A. I have it.

Q. Do you have the 1917 edition?

A. I have.

Q. Will you turn to page 462 first, which is the first page, I believe, of the Directory of Directors contained in that book, is that right?

A. That is right.

Q. And will you read the introductory statement?

A. This page is headed "Directory of Directors" and there follows this introduction: "The following list contains the names and address, so far as can be ascertained, of every person who appears as a director in any of the companies represented in this work, with a list of all of the companies of which he is a director. Letters have been addressed to each director, asking for a full list of companies of which he is a director. Where the information has been refused, or no answer received, a star has been placed opposite the name. Where no star appears, the list is official. Where the star appears the information has been obtained from other sources."

Q. Now will you turn to that portion of the directory of Directors, where Herbert Fleishacker

(Testimony of C. W. Platt.)

and Mortimer Fleishacker are listed, and first tell us whether there is [1055] any star alongside either of those two names? A. There is not.

Q. So that we can accept it as a fact, can we not, that these directorships or those that you are about to read are their own statements, can we not?

A. That is correct.

Q. Will you be good enough to read into the record the directorships or officerships held by Mr. Herbert Fleishacker in Walker's manual of 1917?

A. With respect to Herbert Fleishacker, Anglo and London-Paris National Bank; Anglo-California Trust Company, First Vice-president; Anglo & London-Paris National Bank; President; California Delta Farms, Inc., California Electric Generating Company, vice-President; Federal California Traction Company, President; City Electric Company; Crown Columbia Pulp & Paper Company; Crown Willamette Paper Company, Vice-President; Floriston Land & Power Company, President; Floriston Pulp & Paper Company; Great Western Electro Chemical Company; Great Western Power Company, Vice-President; Great Western Power Company of California, Vice-president; Los Angeles Union Terminal Company; Natomas Company of California; Northwestern Electric Company, President; Pacific Development Company; Pacific Mutual Life Insurance Company; Reno Traction Company, President; Vulcan Fire [1056] Insurance Company, Oakland; Weed Lumber Company; Western American Realty Company.

(Testimony of C. W. Platt.)

Q. Now Mr. Mortimer Fleishacker?

A. Anglo-California Trust Company; Anglo-California Trust Company, President; Anglo and London-Paris National Bank, First Vice-President; Calamba Sugar Estate, Trustee; California Alkili Company, President; California Electric Generating Company, President; Central California Traction Company, Vice-President; City Electric Company, President; Crown Willamette Paper Company, Senior Vice-president; Great Western Power Company, President; Great Western Power Company of California, President; Los Angeles Union Terminal Company; Northern Commercial Company; Northwestern Electric Company, Vice-President; Realty Syndicate Company, Oakland; San Francisco-Oakland Terminal Railways, Reorganization committee; San Francisco Remedial Loan Association; University of California; Western American Realty Company.

Q. Now do you have any reason to believe that their interests were any materially different or materially less as of 1911 to 1914? A. No.

Q. You would not say, would you, that if a company were required to keep its books of account—its stated books of account, as recommended by the joint report of [1057] the examiners, that would necessitate a misstatement of the company's financial position?

A. Due to the extent that——

Q. Do you want the question read?

(Testimony of C. W. Platt.)

A. No. Except to the extent that the placing of the $3,500,000 in account 107 would imply that that item represented either a write-up or that it was the difference between the value of a consideration given by the company as its cash value. [1058]

Q. Well, was it a misstatement prior to this time to carry $100,000 on your books as organization expense and $3,400,000 as miscellaneous non-operating intangible capital?

A. I don't believe it was for the reason that our books, as heretofore stated, with respect to fixed capital account, had been compiled and reported on the basis of prudent historical cost.

Q. And you think that you are required to report your books now on some different basis?

A. Yes.

Q. Now, wouldn't it in your judgment be true that account 107 correspond generally to the account, miscellaneous non-operating intangible capital? A. No.

Q. Now, then, you think in that respect your books are today misstated?

A. Our books today are subject to the qualification that they are in the process of reclassification.

Q. Yes, I realize that.

A. Therefore, there is not the intent to give to our balance sheet the full effect of the new system of accounts.

Q. I am not discussing intent with you at this time, Mr. Platt. I am just discussing with you the

(Testimony of C. W. Platt.)

fact whether or not your books are today misstated?

A. They are not stated in the terms of the present [1059] Uniform Classification of Accounts.

Q. You said that if you are required to state your books as recommended in the joint report, Exhibit 3 in evidence, that would necessitate the misstatement of your company's financial condition. And is that your position?

Mr. Laing: Just one at a time, one item at a time.

Mr. Slaff: We can confine ourselves to one item at a time, yes.

A. Yes.

By Mr. Slaff:

Q. Now, let's clear out the other items. With respect to the other items considered in the Examiners' joint report, to require you to state your books as recommended by the Examiners would not necessitate a misstatement of the Company's financial condition? Is that correct?

A. It would fail to state the cost of the property, as I believe it should be recorded on the report.

Q. That is, it would fail to state the cost of the property as you today interpret the system of accounts. That perhaps is a better statement, is it not? A. That is right.

Q. However, with respect to those other items contained in the report, other than common stock, to require your company to keep its books—state its books as recommended by the joint report, Exhibit

(Testimony of C. W. Platt.)

3, would not require or necessitate— [1060] would not necessitate a misstatement of the financial condition of the company?

The Trial Examiner: You mean, Mr. Slaff, would not require or would not be?

Mr. Slaff: It would not—well, it would not be; it would not necessitate.

Q. The books of account as stated would not be a misstatement of the Company's financial position, financial condition?

A. I believe it would be a misstatement of the accounts of the company, and I fail to see how that could be other than far-reaching enough to affect the financial condition of the Company.

Q. Then you think that, eliminating the problem of common stock, to require your company to state its books as recommended in the joint report would be to require the books of your company to misstate the financial condition of the company? Is that correct?

A. Well, to the extent the cost of plant is a financial transaction.

Q. And that is the best answer you can give to this question, that is with that qualification, "To the extent, etc."? A. That is my answer.

Q. Well, let me put this question to you: "Has the [1061] credit of your company been impaired in the past because you have stated your books or carried your books up to the time—up to the present, as a matter of fact—substantially as recommended

(Testimony of C. W. Platt.)

by the Examiners in their joint report, eliminating the $3,500,000 problem?

A. No, because it is understood that our cost was prudent historical cost and not that they were costs determined in the manner provided in the now-effective classification of accounts.

Q. Now, if the classification of accounts is interpreted by the Commission as the Examiners in those particular respects interpret it, and interpreted so, uniformly, by the Commission, and you are required to keep your books as you always have kept them in the past, would that tend to impair the credit of your company?

A. It should not for the reason that it would then be understood that the Commission's classification of accounts and its final interpretation and final application had given effect to such recommendations.

Q. I see. And you say it should not, and I take it that you mean that circumstance alone would not? A. That is right.

Q. Now, returning to the question of the $3,500,000 which we have been discussing this morning. That, I think you have stated and counsel have stated that matter, is the [1062] question, the problem of the common stock of your company, has always been a headache to the management of your company, isn't that right?

A. I think that is properly characterized.

Q. Now, is it your judgment that to follow the recommendations of the Examiners in the joint re-

(Testimony of C. W. Platt.)

port with respect to this matter would tend to impair the credit of your company?

A. May I please add to the answer to your former question?

Q. Yes.

A. The headache arose from the failure of the incorporators or promoters to make a record which fully spoke for itself.

Q. Well, there is also a headache that $10,000,000 that was allegedly in the Property Account just wasn't there. I mean there were a lot of things that gave you headaches in that matter in addition to the failure to make a record that spoke for itself?

A. A number of problems arose out of it, yes.

Mr. Laing: I want to interrupt a minute to say that as far as counsel's headaches are concerned, they apply to the period prior to the reduction of 1936.

Mr. Slaff: Do you mean to say that you haven't had any headaches since then? [1063]

Mr. Laing: Not since then.

Mr. Slaff: We will have to start all over again, then.

The Trial Examiner: Is there a question now pending, Mr. Slaff?

Mr. Slaff: Yes, there is.

The Trial Examiner: Restate the question, Mr. Slaff, if you can.

By Mr. Slaff:

Q. Yes. If the Commission should follow the recommendation of the Examiners in the joint re-

(Testimony of C. W. Platt.)

port, Exhibit 3, would that tend to impair the credit of your company? A. It would.

Q. I didn't get it? A. It would.

Q. And that is your best judgment today, as given to us as such? A. Yes.

Q. And in what manner would it tend to impair the credit of the company?

A. Because of the legal problems that would arise out of the relationship between the stockholders, it would be in effect a declaration that the stock had no value behind it and that it was issued for no cash consideration. That last I would like to correct,—that no consideration of cash [1064] value was given for it.

Q. Or wouldn't you like to correct it still further, that no consideration of presently-measurable cash value was given for it? A. No. [1065]

Mr. Laing: I don't know whether that "no" is in answer to Mr. Slaff's question. It is a negative question, and I would like to get that straight.

Mr. Slaff: I took it that he did not want to make any further corrections or additions.

Mr. Laing: That is what I thought, but I wasn't sure.

Mr. Slaff: I will accept it as that.

Mr. Laing: Is that what you meant, Mr. Platt?

A. I would like to have the question read again, please.

(Question read.)

Mr. Laing: I didn't know which "no" it meant. Do you mean no, that you don't want to state.

(Testimony of C. W. Platt.)

A. I mean no—I mean that I would not like to add that. I mean that I would not like to add that. That is what I mean.

Q. Now with respect to the latter two of those three elements that you said would intend to impair the credit of your company, if the Commission should follow the Examiner's recommendations. As you testified this morning you yourself have declared, in 1934, that you could find no property behind $9,600,000 of the original $10,000,000 issue.

A. Yes, I did.

[1066]

Q. That is right.

A. On the basis of prudent historical cost.

Q. And on that basis you just could not find any property, after careful investigation, and a thorough investigation, in back of that $9,600,000 of the original $10,000,000 of stock. That is correct?

A. Not that I could identify and evaluate.

Q. With respect to that same $9,600,000 your company has maintained before both state commissions, that that never had any value for rate-making purposes, as part of the rate base, isn't that correct?

A. We claimed that no part of that belonged in the rate base, over and above what we could prove to be prudent historical cost, for services that were rendered.

Q. And the maximum of that latter that you could prove to your own satisfaction was $400,000?

A. That is right.

(Testimony of C. W. Platt.)

Q. Now was the credit of the company impaired by the action of the Oregon Commission in disallowing that $400,000 as an element of your rate base?

A. I think it must have been.

Q. As a matter of fact, isn't the credit of your company better today than it was at the time the Oregon Commission made that disallowance? [1067]

A. Oh, there are many things that have a bearing on credit that have transpired since that was effected?

Q. Well, you do not deny the fact that the credit of your company is better today than in 1932, say, or 1933 or 1934, perhaps, when the Oregon Commission refused to allow even that $400,000 as a proper element of your rate base?

A. Our credit is a great deal better, because at that time we were not making the full preferred stock dividend requirements.

Q. And you are today making them, are you not?

A. We are.

Q. And haven't you, as a matter of fact, paid up the unpreferred paid stock dividends in arrears?

A. Yes.

Q. And paid them off? A. Yes.

Q. Now with respect to the third element that we mentioned, the legal problems of the relationship of the stockholders to one another, what are the problems there that bother you and that you think might tend to impair the credit of the company

(Testimony of C. W. Platt.)

if the Commission should follow the Examiner's report?

A. Because it will be represented in such a reclassification that $3,500,000 worth of assets were without [1068] value.

Q. What are the legal problems of the relationship between stockholders that bother you, and that influenced your answer? That, as I understand it, was one of the elements that we mentioned in your original answer?

A. Well, both Mr. Smith and Mr. Van Scoyoc have recommended that this $3,500,000 be written out of the books, either immediately or in due course, and in doing so there will be a destruction of the——

Q. There would be what?

A. Destruction of the equity represented by one hundred thousand shares of common stock.

Q. Well, the fact of writing that out of the books, or writing it up or writing it down won't affect the equity, whatever equity there may be in a company?

A. It would very seriously impair it.

Q. How would it impair it? Let me put it this way, it won't change whatever equity of value, if any, exists in the property, will it?

A. It denies a large amount of value.

Q. Then in your judgment, will the writing down or the writing up or the change—writing off of that three and one-half million dollars of com-

(Testimony of C. W. Platt.)

mon stock—that act in itself will change such equity as may exist—such equity of value as may exist within the property today, [1069] is that right?

A. That is right.

Q. And it was on that basis, and those that we have been discussing here, that you say that to follow the recommendations of the Examiner would tend to impair the credit of the company?

A. That is right.

Q. And you have outlined all of the factors, or at least all the major or substantial factors which go into your judgment in that respect, is that right?

A. I don't know whether I have exhausted them or not. Those are the ones presently occurring to me.

Q. Well, that is as far as you can think at the moment, those are the major ones?

A. Yes.

Q. Now going back for a moment to your valuation of this stock as of July 1, 1914, you had three indices of value which you used to determine the amount that you fixed, isn't that right?

A. That is correct.

Q. You didn't have any other indices?

A. No, I used no others.

Q. You had one index which, when applied to the total one hundred thousand shares, as I understand it, prior to the date as of which you made the valuation, which would [1070] result in a total figure of approximately $2,250,000, is that right?

(Testimony of C. W. Platt.)

A. That is right.

Q. Now you had another index existing from a year and a half to two and a half years after the date of the valuation, which would give you a figure of approximately that same amount, isn't that right? A. That is right.

Q. Now, in addition to those two you also had a third index, some nine years or eleven years, rather, after the date as of which you valued this stock, which when applied to the total number of shares outstanding gave you a value in excess of $3,500,000, is that true? A. That is correct.

Q. Now will you tell us how you put the three together and came up with $3,500,000?

A. I didn't do it except on the basis of looking at those three and taking into account the sources of the information and formed a judgment that $3,500,000 was representative of the cash value of those issues of stock.

Q. You did not add the three figures together and divide by three? A. I did not.

Q. Now the 1925 figure represented, I suppose, somebody's judgment of value as of 1925, isn't that right? [1071] A. That is correct.

Q. The purchasers at that time, in 1925, were not attempting to make any valuation as of around 1914, were they? A. They were not.

Q. Two much closer valuations to your date gave you a figure well below your $3,500,000, isn't that right? A. That is right.

(Testimony of C. W. Platt.)

Q. Now let me ask you, if you had used those two indices alone as being the proper indices, could you have possibly arrived at your figure of $3,500,000?

A. No, I don't believe I would have.

Q. There are just one or two other things, Mr. Platt, and perhaps we can clean them up rapidly. In going over some of your earlier testimony on cross examination with respect to your testimony concerning the fact that you changed your mind as to the requirements of the Federal Power Commission system of accounts some time after November 35, 1938, and as I recollect now you placed it some time in the spring of 1935, March or April of 1939, it is not clear to me as yet just where the idea of the restatement came from, and I wonder if you can give us any better idea now than you did earlier, because I presume this whole problem has been in your mind pretty actively for the past week? [1072]

A. No, the thing has been talked about within the industry and within our own organization and these ideas have developed by exchanging ideas back and forth among ourselves and it gradually grew upon us that here was something that required more than an ordinary amount of care, because evidently it was something required to be set up on the books of a very lasting nature.

Q. Can you state the names of the members of the Ebasco organization with whom you discussed

(Testimony of C. W. Platt.)

this problem; responsible people with whom you discussed this problem, responsible advisors.

A. You mean as people among others with whom I have discussed it?

Q. Well, you stated that you have discussed it with other people in the industry, and so on?

A. Well, I discussed it with Mr. A. W. Hatch, who was the sponsor accountant, and with Mr. R. M. Boykin. I am not certain what other ones I discussed it with. It is not unlikely that there were some members of the engineering staff who participated.

Q. That is of the Ebasco engineering staff, you mean? A. Yes.

Q. Can you tell us whether those discussions were here or in New York, or both, as far as you are concerned? [1073]

A. In both places.

Q. That is, between the dates of November 25, 1938 and say April, of 1939?

A. That is right.

Q. You can't tell us whether either Mr. Hatch or Mr. Boykin, or anyone else suggested the idea of restatement to you, or whether you suggested it to them? A. No.

Q. I take it the restatement which you made and which you filed with the Commission, was submitted to Ebasco or to your Ebasco advisors, before it was filed with the commission.

(Testimony of C. W. Platt.)

A. They were given an opportunity to look at it.

Q. I presume they took advantage of that opportunity? A. Yes.

Q. There is no question about it. Now have you received from the Ebasco organization any bulletins or circulars, or instructions relative to the method to be used in making an original cost study?

A. I think that organization at some time issued a bulletin in which they brought out the problems that were inherent in this reclassification. [1074]

Q. Do you recollect such a bulletin between November 25, 1938, and April of 1939?

A. No.

Q. You do not. You stated at page 117 and 118 that the negative exception to Instruction 2(b) violated sound accounting principles. Now, what are those sound accounting principles that are violated?

A. The right to correct errors.

Q. What else?

A. That is outstanding.

Q. Any others, or is that the one fundamental?

A. That is the one fundamental.

Q. The one fundamental accounting principle that you think that that violates? A. Yes.

Q. Did you bring over—did you pull Voucher No. 219, which is the voucher in connection with the reimbursement to the Fleishhackers of their expenses up through May 6, 1912?

(Testimony of C. W. Platt.)

A. I have a copy of it here.

Q. I hand you this document and I ask you if that is a copy or whether, subject to your further check, it appears to be a copy of that voucher?

A. It is. [1075]

EXHIBIT NO. 70

(EXCERPT FROM VOLUME I, TRANSCRIPT OF EVIDENCE IN U-F-616, DEC. 1932)

[Testimony of Guy W. Talbot]

[Pages 107 to 119]

Mr. Laing: I explained, Mr. Thomas—this is a little informal—at the time we went back to New York we had a very short time, as you may remember, between the two sessions of that rate hearing. Now your preliminary inquiries in that rate hearing raised several questions concerning the status of that common stock and the status of the corporate management with reference to that common stock. There are a great many other things that I was interested in to find out about when I went back to New York and wanted to discuss and satisfy myself about, in regard to the securing of information with regard to the value of the services that were being rendered and all of those things which you had asked about, the cost of rendering those services. There were four or five more or less important questions that were suggested with regard to the stock. I felt that it was necessary that we have in-

(Testimony of C. W. Platt.)

(Exhibit No. 70—continued.)

mediate advice that we would all feel satisfied with, both as to the question of the status of this stock and of the management resulting from it, and with reference to the question of whether the Northwestern Company as a company had any claim upon the Fleishhackers with regard to their subscription, or their agent's subscripfion of the capital stock. It wasn't possible for me, either from the standpoint of time or otherwise, to undertake to find the answer. I had my own views about those questions, but I felt that they should be gone into exhaustively by someone who had a force of men that were able to run down all the authorities and find out exactly what the answer was; and that was the real occasion for the employment of Simpson, Thatcher & Bartlett. Sometimes even an expert, if I might be immodest enough to claim to be that, will call in the services of someone else who he may think can perhaps help him in an emergency, or contribute judgment either to showing where he is wrong or right, or to do something that he hasn't the time to do: and it is very, very rare that in the course of the handling of the legal affairs of this company I have employed anyone else to assist us, except where the services were required to be furnished in a point where it wasn't possible for me to be, or where it called for some specialist on patent law or something of that sort. I don't think you will find very many engagements of that sort in the records of these companies.

(Testimony of C. W. Platt.)

(Exhibit No 70—continued.)

The Witness: Generally in a big case or on any big question they have three or four firms of lawyers employed. It brings back the question that one man doesn't know it all, or one man's judgment is not always right; it ought to be confirmed before any move is made.

Q. (By Com'r Thomas) Well, there are three members of Mr. Laing's firm here?

A. Yes.

Q. Good men? A. Yes.

Q. And the American Power & Light owned, had purchased that common stock, put up five million dollars or more for that; they were interested of course in that question. But may I ask, Mr. Laing, when you went back I presume you immediately contacted the American Light & Power group in regard to that question?

Mr. Laing: Well, yes. I discussed that with a lot of other things that had come up in connection with the case.

Com'r Thomas: Did they suggest that this particular firm be employed?

Mr. Laing: No. I came from that firm originally, Mr Thomas. I was employed in Simpson, Thatcher & Bartlett's offices twenty-two years ago, working directly under Mr. Morrow at that time, Dwight Morrow, and I have known those people and have been in contact with them ever since, and they have been, as far as I know, the outstanding cor-

(Testimony of C. W. Platt.)

(Exhibit No. 70—continued.)

poration law firm in New York City; at least one of a dozen firms that might be regarded as eminent.

Com'r Thomas: They have been very closely allied with the American Power & Light and the Electric Bond & Share for years?

Mr. Laing: They are their counsel when they employ outside counsel, yes. But I know of no firm in New York where I would have the confidence, and the association, and the feeling of dependability, that I would have with Simpson, Thatcher & Bartlett. It is just like home, as far as I am concerned.

Com'r Thomas: Well, would you feel that the questions that arose in the other case in regard to the common stock were questions for the local company or a question of the American Power & Light Company?

Mr. Laing: In so far as it had to do with the Fleishhacker transaction it had to do with the question of whether the Northwestern Electric Company, as such, had any claim on the Fleishhackers. The American Power & Light Company had no claim on the Fleishhackers. They bought that stock in the open market, without any representations or anything else.

Com'r Thomas: Yes.

Mr. Laing: And they bought either something that was worth five million, or ten million, or no millions, depending on what it was worth. But of

(Testimony of C. W. Platt.)

(Exhibit No. 70—continued.)

course, just as the preferred stockholders or the bondholders of the Northwestern would have an interest, the American Power & Light Company obviously were interested, too, in knowing whether the Northwestern Electric Company had any claim as a result of those early transactions. But the transaction was primarily a corporate one, between the Northwestern Electric Company and the Fleishhackers.

Com'r Thomas: Well, wasn't the question between the American Power & Light and Fleishhackers as to whether or not they had bought anything of value, whether there was any fraud?

Mr. Laing: I think quite clearly that was not the case, Mr. Thomas. Mr. Talbot and I supervised the purchase of that stock in March of 1925, and we did that for the American Power & Light Company.

The Witness: They furnished the money.

Mr. Laing: They furnished the money, and I went down to San Francisco with Mr. Talbot, and I recall very distinctly the transaction, and all that the Fleishhackers did was to say, "We will put on the table from ourselves and our friends so many shares of stock at so much money", and there were no representations or other things entering into it that would have given the American Power & Light Company the basis to claim that they had been defrauded: certainly, not from any legal standpoint.

(Testimony of C. W. Platt.)

(Exhibit No. 70—continued.)

The American Power & Light Company bought the property on the basis that it was worth the amount of that stock. The question that was raised in the investigation was the question of whether, legally or otherwise, the Northwestern Electric Company had received value for the stock which was issued to the Fleishhackers, and there was a question in my mind on that point. Some time ago you made the statement that the company conceded that the Northwestern got nothing for that ten million dollars of stock. I didn't intend to give the impression that I think that is the case. I think that the Northwestern Company did get some value from the Fleishhackers and their associates for that stock in the way of——

Com'r Thomas: An equity in property.

Mr. Laing: —services and financial assistance, and things of that kind. What I conceded at the other hearing was that the item on the plant account of ten million dollars for land and water rights was not a proper item in the fixed capital account, because we were not able to find, and Mr. Lester's investigation was not able to disclose, that there had been incurred expenditures, or any expenditure of any consequence for land and water rights to balance that item. Consequently I conceded that that item was not a proper one. But I do think it is true that the Fleishhackers did make a contribution of some value in consideration of that stock, but——

(Testimony of C. W. Platt.)

(Exhibit No. 70—continued.)

Com'r Thomas: Didn't we also agree between us that there was some equity there?

Mr. Laing: Yes.

Com'r Thomas: That the common stock would represent?

Mr. Laing: Yes: I think that was the understanding. The thing which the company frankly admitted was that the item of plant and property ten million dollars was not a proper item, so far as historical cost or book value of the property—that is, so far as historical cost of the property was concerned. Now this matter that we had to consider in New York was the question of whether there was any basis for the Northwestern Electric Company to make a claim against the original subscribers of the original stockholders of that stock, for any additional value over and above what they received, and whether that claim had been lost by lapse of time. It required an immediate study of the laws of the state of Washington, under which the company was incorporated, and also to some extent a study of the laws of California; the question of how far a transaction of that kind could be followed through the agents who subscribed and the people to whom it was issued, the nominees of the stock when the stock came out. There were probably forty or fifty interrelated legal questions involved in that whole matter, and——

Com'r Thomas: Did they sign the subscription?

(Testimony of C. W. Platt.)

(Exhibit No. 70—continued.)

Mr. Laing: No.

Com'r Thomas: I didn't remember.

Mr. Laing: No, they didn't. It was all subscribed originally by Condit, plus five or six shares subscribed by individuals. Isn't that right?

Mr. Lester: That is correct.

Com'r Thomas: But Fleishhacker himself didn't have any subscription?

Mr. Laing: No. But the second five million of stock was never formally subscribed for. It was covered by the passage of a resolution authorizing the issuance of the stock to the successors of the original subscribers, and there were some very difficult legal questions involved in that. The only part of that bill which I think may specifically be chargeable to the rate proceeding is that part which would fairly represent their inquiry into the status of the management, in so far as it was related to that stock. You in the early part of that hearing raised the question as to whether the whole corporate management wasn't in doubt because of the question of the legality of the stock, and that question I wanted to have settled. I had my own opinion about it, and I think I expressed it to you at the time, but I felt it was such a vital question that I would like to have that confirmed or myself made right on it.

Com'r Thomas: That ten million stock has a peculiar history. I have examined the Corporation Department records on that, as well as our own:

(Testimony of C. W. Platt.)

(Exhibit No. 70—continued.)

that is, the annual reports filed with us; and I think I would like to make the record show the situation here, because I think there is a difference of opinion between Mr. Talbot and myself in regard to the responsibility of common stock issues in the Commission work.

I find in the Corporation Department, and I am not going to take much time on it, that when the Northwestern filed its corporation papers — what date was that? From the time it incorporated on I have a number of statements here. It was incorporated July 14th, 1911. It was reported in the Corporation Department in an application which was filed. Where is that? I want the first one.

Commencing with the application to the Corporation Department here, which shows a preliminary statement of the Northwestern Electric Company, dated January 25th, 1915, signed by Herbert Fleishhacker, president, and Wilbur E. Coman, vice president and general manager of land and water rights; and I have often wondered where they got that "water rights", but I imagine they were taken off of the early records; but the common stock there is listed at ten million dollars, and that is duly verified by the agent I have just mentioned.

Then we follow that up. The next one is by Mr. Coman, vice president, and R. E. Wallace, secretary. This is called a regular statement, filed with the Corporation Commissioner.

(Testimony of C. W. Platt.)

(Exhibit No. 70—continued.)

Mr. Laing: These have to do with their applications for blue sky permits to sell their preferred stock, do they not?

Com'r Thomas: Yes, I think so. The fixed capital is given in a report or statement attached to the document I just mentioned, under date of June 30, 1915. Fixed capital is given at $14,375,719.28 and the common stock is listed at ten million, bringing the total to $16,280,394.01.

The next regular statement seems to have been filed with Mr. Schulderman, Corporation Commissioner, and it was a statement verified by Mr. W. E. Coman, vice president, and F. M. Luce, General Auditor; and again the fixed capital is given at $14,702,547.96 and the common stock is listed again at ten million.

Mr. Laing: That would necessarily appear in all of their statements, as long as that stock has been outstanding.

Com'r Thomas: Yes, that appears right on through the same way. Next is a regular statement filed with the Corporation Commissioner by A. N. Baldwin, Vice President, which shows the common stock listed at ten million. Again it is presented by H. Fleishhacker and Samuel Smith, Acting Secretary. They verified that. It gives the plant and equipment $17,858,014.24 and the common at ten million; total assets $20,106,439.25; total liabilities the same.

The next statement is practically the same. That

(Testimony of C. W. Platt.)

(Exhibit No. 70—continued.)

is signed by G. C. Peirce, Vice President, and R. E. Wallace, Secretary; again on the 6th of August, 1918, W. E. Coman, Vice President, and Samuel Smith, General Auditor, verify it, giving a setup practically the same as before, with the fixed capital $15,796,562.64 and the common stock at $10,000,000; total assets $17,804,703.92.

I may be a little out of order but I am giving them as they are.

August 2nd, 1921, another statement filed, giving assets at $20,646,826.03, with plant and equipment $18,091,124.26, and listing again the common stock at ten million.

August 9th, 1922, assets $21,175,279.31, plant and equipment $18,529,508.41, and common again at ten million.

August 29, 1923, or October 2nd, 1922, rather, there was a permit to transact business as a dealer. That permit recites subscribed and issued common stock ten million dollars. It recites the preferred stock and other items, but mentions the ten million. Did I say that was a permit? Let the record show that is a dealer's preliminary statement that was filed, and upon which a permit was issued to Mr. Merwin.

Again on August 29, 1923, another regular statement, which shows the same common stock and about the same setup.

Another statement was filed May 15th, 1924, showing the ten million dollars and the plant and

(Testimony of C. W. Platt.)

(Exhibit No. 70—continued.)

equipment $20,032,340.85; total assets $22,975,250.56. That was made a part of dealer's preliminary statement, which shows the same stock situation.

On July 20th, 1924, another regular statement filed by Mr. Fleishhacker as Vice President, R. E. Wallace, Secretary, showing the common stock ten million and plant and equipment at $20,342,487.71.

July 14th, 1921—the other one was 1924; these are out of order—July 14th, 1921, a number of letters were filed and the Northwestern Electric Company balance sheet as of May 31, 1921, which again recites the common stock, plant and equipment $18,048,168.24; total assets $20,618,028.71. Upon that a permit to transact business as a dealer was issued by Mr. T. B. Handley, Corporation Commissioner.

On July 24th, 1925, Mr. A. N. Cudworth wrote to the Corporation Commissioner enclosing a dealer's regular statement of Northwestern Electric Company for the year ended June 30th, 1925. That regular statement sets forth the officials as follows: Guy W. Talbot, President; L. T. Merwin, Vice President; C. W. Platt, Secretary; C. W. Platt, Treasurer; L. T. Merwin, General Manager, and John A. Laing, Attorney, trustees. In that statement the assets are given as $25,366,737.04; plant and equipment $21,570,891.13. Liabilities balance the gross assets and contain the item of ten-million dollars common stock. That regular statement was verified by

(Testimony of C. W. Platt.)

(Exhibit No. 70—continued.)

L. T. Merwin, Vice President, and Assistant Secretary—what is that name—A. N. Cudworth, verified on the 23rd of July, 1925. Attached is an exhibit under the head of statement of assets and liabilities as of December 31, 1924, which document appears on file February 21, 1925. The assets are given as $24,445,699.50, and plant and equipment $21,073,588.75; common stock listed at ten million. Permit was issued under date of March 4th, 1927, to transact business as a dealer to the Northwestern Electric Company to sell $1,500,000 of its unsubscribed seven per cent cumulative preferred stock, permit to expire by limitation February 1st, 1926.

Dealer's preliminary statement filed January 26, 1925. That is signed and verified by Herbert Fleishhacker, President, R. E. Wallace, Secretary, M. F. Fleishhacker and A. N. Baldwin, Directors.

Now where are the records in our department?

Mr. Laing: The record will also show, I think, Mr. Thomas, that shortly after the new management came in it discontinued the sale of preferred stock and there has been no preferred stock sold since the fall of 1925.

Com'r Thomas: Yes; the record may show Mr. Laing's statement there. No preferred stock has been sold since the new organization of '25.

Mr. Laing: There was just a little bit that had to be cleaned up with the agent that had it; that was all.

(Testimony of C. W. Platt.)

(Exhibit No. 70—continued.)

Com'r Thomas: Perhaps we had better adjourn.

Mr. Laing: I think we can concede, Mr. Chairman, if that is what you have in mind, that throughout our annual reports essentially the same items of fixed capital and the same items of outstanding liabilities are shown in those reports. They would still have to be shown, because that is the way the books show the accounts. I expect that that is in all, and must be in all, of the annual reports to the Commission.

Com'r Thomas: I think that is true. Isn't that true, Mr. Lester?

Mr. Lester: Yes, that is true.

Mr. Laing: That is the fact today. There is ten million dollars par value common stock outstanding and it is balanced by an item in the plant account. For rate making purposes, however, we have also conceded that that has no bearing on the transaction of the Commissioner fixing the value either on the basis of what it finds as its historical cost, or whatever value the court may fix as the value of it, and the capitalization does not enter into it.

Com'r Thomas: I agree with your statement. At no time have we considered——

Mr. Laing: The ten million dollars.

Com'r Thomas: The ten million dollars, in any of our matters as applicable to rates. That is true. What are we going to do with this ten million dollars eventually?

(Testimony of C. W. Platt.)

(Exhibit No. 70—continued.)

Mr. Laing: Why, in my judgment, Mr. Commissioner, that ten million dollars is one hundred thousand shares of stock and it does not make the slightest bit of difference whether you put a ticket on it as to what it is worth or whether you say it is one hundred thousand shares of stock that represents the equity, whatever is found to be the equity.

Com'r Thomas: Well, I think we have ironed that end of it out, haven't we?

Mr. Laing: Yes.

Com'r Thomas: The only thing is this now: You make an annual report of your company and you have that in your plant and equipment, for instance; you reflect an amount there in excess of the actual facts.

Mr. Laing: It may be an amount which——

Com'r Thomas: Not for rate making purposes; I am not arguing that in that direction.

Mr. Laing: Yes.

Com'r Thomas: But so far as a statement to the public for investment purposes. Now for instance, if the American Power & Light put that ten million dollars in their financial report to their investors, that is hardly a truthful statement, is it?

Mr. Laing: You mean if that report might be deemed a representation that the property was worth ten million dollars, that there was value received of that?

(Testimony of C. W. Platt.)

(Exhibit No. 70—continued.)

Com'r Thomas: I don't know how they have set that up in their report; I have no information on it: but if they would set that ten million up as ten million assets it would not be a correct representation to their investors.

Mr. Laing: It might be—if it were deemed a representation it might be incorrect to the extent of the difference between what the fair value of the property was as at the time, and that amount, if any difference.

Com'r Thomas: Yes.

Mr. Laing: Whether or not balance sheets are so considered as representing the present cash value of the property, I am not prepared to say. I think ordinarily people don't depend no balance sheets alone as the basis for making their investments, but I think personally it is preferable that the balance sheet should reflect approximately the value of the assets or the investment.

Com'r Thomas: Don't you think in the long run that the companies that are sound and healthy and efficient would be far better off from the financial standpoint, from the ability to procure funds, if the absolute facts were reflected in their statements?

Mr. Laing: I think so, yes.

Com'r Thomas: Of course those who could not make that kind of a statement would be injured, and they should be. The investors should have the right to rely on those statements.

(Testimony of C. W. Platt.)

(Exhibit No. 70—continued.)

Mr. Laing: The investor is entitled to have the true statement; there is no question of that.

Com'r Thomas: And a good going, efficient company would be outstanding and would be able to get money a lot easier than if there was a question or a doubt as to their financial statement.

Mr. Laing: I think that is true. The question is, what are you going to do with a picture that is already created?

Com'r Thomas: Yes, that is the question.

Mr. Laing: That is the thing that has been puzzling me. We didn't make this picture.

Com'r Thomas: No, that is true, you didn't, but the picture is here now. The question came up here I think between Mr. Talbot and myself why it was certain securities in California were selling better than securities in Oregon and representing an investment practically alike.

Office of the Public Utilities Commissioner
of Oregon

CERTIFICATE

I, Ralph H. Mitchell, Secretary of the Public Utilities Commissioner of Oregon, do hereby certify that I have compared the foregoing and attached copy of excerpts of testimony of Guy W. Talbot and statements of Commissioner Charles M. Thomas and John A. Laing, given in Cause U-F-

(Testimony of C. W. Platt.)

(Exhibit No. 70—continued.)

616, before the Public Utilities Commissioner of Oregon, from pages 107 to 119, inclusive, with the original on file in the office of the Public Utilities Commissioner of Oregon, and that it is a full, true and correct transcript therefrom and of the whole of such original.

In testimony whereof, I have hereunto set my hand and affixed hereto the seal of the Public Utilities Commissioner of Oregon this 17th day of July, 1940, at Salem, Oregon.

[Seal] RALPH H. MITCHELL,
Secretary
Public Utilities Commissioner of Oregon

Q. Mr. Platt, I have one or two questions in regard to the $3,500,000. As I understand your testimony, you have named a value of the stock to the promoters, but not as to the corporation, is that correct?

A. I have fixed a value, a cash value on the stock. I have not attempted to show what that value might be expressed in terms of prudent historical cost.

Q. That is not answering the question. You fixed a value on that stock as in relation to the value of the promoters, have you not?

(Testimony of C. W. Platt.)

A. It might be or might not be the value to them. It is what in my opinion developed to be the cash value of it from such indices of cash value as I have recourse to.

Q. Well, you have not attempted here, have you, to place the value upon that stock to the corporation? A. To the corporation? [1086]

Q. Yes. A. I am not required to.

Q. Well, then the answer is "No"?

A. That is right.

Q. You have not fixed a value to the corporation, is that right?

A. Well, the value has been fixed in accordance with the instructoins in 3D.

Q. Just answer my question. I am just trying to interpret your testimony here. That is correct, is it not?

A. I have attempted to fix the value on the consideration that the company gave to the promoters and incorporators of the company.

Q. You have attempted to fix the value that the corporation gave to the promoters?

A. That is right.

Q. But you have not fixed the value to the company, have you? A. No.

Q. I do not believe it has been brought out here, Mr. Platt, the second issue of common stock was never subscribed to by the first holders thereof, is that correct?

A. Well, not to the identical holders.

(Testimony of C. W. Platt.)

Q. Well, it was not subscribed by anybody, was it, the second issue of common stock, according to the records [1087] of your company?

A. The records are too sketchy to reveal what the act of subscription was. That is one of the difficulties we have had to contend with.

Q. Then you can say that the second issue was not subscribed to, according to the records of the company, isn't that right?

A. I find, as I recall it now, nothing in the records to show a subscription. We do, of course, have ample evidence of the issuance of this stock. [1088]

Q. And of course all your testimony here is based upon the records of the company?

A. No, I think that I have testified that I have used those records of the company insofar as they were informative and that there are things that—wherein the record is not complete on these matters.

Q. Subscriptions which usually precede the issuance of stock are not to be found therein? The records do not show any subscriptions?

A. As far as I know.

Q. You haven't any other information on it, have you?

A. Well, I have said, as far as I know.

Q. Going back to the history a little bit, of the Northwestern Electric Company — when they were organized, the corporation was organized, it was never organized with the thought that it would en-

(Testimony of C. W. Platt.)

gage in the business as a public utility? That is correct, is it not?

A. I don't recall what the articles of incorporation had to say on that subject, but certainly before the period of actual organization had gone along very far the company did make the necessary move to engage in the general utility business.

Q. Is it your understanding that when the corporation was first organized that it would engage in the public utility business? [1089]

A. You mean as of the date of organization?

Q. Yes.

A. I think we better look at the articles of incorporation for an answer to that.

Q. Well, have you given that any consideration? Have you thought about that? Do you know whether that is the fact? You can answer yes or no, Mr. Platt?

A. I can't tell you what the articles of incorporation as first filed contemplated.

Mr. Laing: Can you produce them, Mr. Platt?

A. I think——

Q. (By Mr. Laing) Can you produce those articles?

A. I have them here. I would like to refer to them.

By Mr. Kurtz:

Q. I just want your idea upon the subject, Mr. Platt. Go ahead with your answer.

(Testimony of C. W. Platt.)

A. Of course in 1911, in the absence of regulations, there was no definition of a public utility.

Q. Well, you stated here that you would give certain consideration to the efforts of the promoters of this company and in considering the efforts of the promoters of this company did you consider their efforts to the extent that they were going to organize a company to engage in the public utility business?

A. Well, I have taken the record as I find it, and [1090] find that within the period of development that that is what they did do, so I could not escape giving consideration to it on that evidence.

Q. In other words, you cannot break down any period of time or any particular service and put your finger on it and say: the promoters did this one thing, can you? That is, from the records of the company or from any other records you may have?

A. Yes, I can. I can say that they came in here to this situation in 1911 and they put $174,000 of their own cash personally into it at a risk. They developed a hydro-electric project on the White Salmon River; they——

Q. (Interrupting) All right. Now, let's take one of them at a time. What is the value of putting up that much money? How much are you going to allow them in stock for putting up that much money, $175,000?

(Testimony of C. W. Platt.)

A. Are we now talking about the relation of that cash to the value of the stock as a consideration for those services? Or are we talking about it on the basis of prudent historical cost?

Q. I am talking about the cash value.

Mr. Laing: Of what, Mr. Kurtz?

Mr. Kurtz: Of the stock.

The Witness: As defined in Instruction 3(d)?

By Mr. Kurtz: [1091]

Q. I will put it this way. Now, just a minute, I will ask the questions, Mr. Platt. You say that the promoters advanced $174,000 in cash, is that correct? A. They did.

Q. At the beginning. Now, during what period of time did they advance that money?

A. Their first advance was December 7, 1910, and they were reimbursed for that advance on May 13, 1912.

Q. With interest, weren't they?

A. Yes, with interest.

Q. All right. What is the value in cash to the Northwestern Company of that advance?

A. In terms of prudent historical cost?

Q. In terms of cash.

A. I have not attempted to evaluate that as a single item.

Q. Sure. You can't, can you, as a single item?

A. It is a very difficult thing to do. They might have lost every cent of it.

Q. Yes, but you can't——

(Testimony of C. W. Platt.)

A. (Interrupting) Therefore, in my judgment, mere interest is not compensatory for the risk they took.

Q. But you cannot put a value on that one item, can you? A. Well, at least I have not. [1092]

Q. Can you?

A. I don't believe that I can.

Q. And that would apply to any other particular item that you might mention, wouldn't it, your same answer that you just gave to this item here, of $181,000, would it not? A. No.

Q. All right, then. Name another item.

A. In my former testimony before the Oregon Commission I said that when the Fleishhackers put their credit back of the $3,000,000 note issue that I thought that they were able to sell those notes at——

Q. (Interrupting) During what period of time was this, Mr. Platt?

A. During the period of development.

Q. All right, between what dates?

A. These gold notes were issued some time in 1913.

Q. All right.

A. They were two-year gold notes, and in my former testimony I said putting their credit back of those gold notes in my opinion made it possible to sell them for five points higher than they otherwise would. Since that I have been disposed to feel that was a very modest appraisal of the situation.

(Testimony of C. W. Platt.)

Q. All right. They put up security for their gold [1093] notes, didn't they? I mean—wait a minute—did you say they subscribed to the gold notes?

A. They secured them by an agreement as a part of the instrument securing the gold notes.

Q. Now, wait a minute. For each of these gold—the sum that they received for the gold notes, they put up security, did they not?

A. They put up 90,000 shares of stock.

Q. Anything else?

A. They put up bonds and agreed to underwrite any deficiencies.

Q. They put up the subscription list also for the bonds, didn't they? A. Yes.

Q. Sure.

A. They backed that up with their own endorsements.

Q. Sure. And if it had been necessary to call on the security, whoever subscribed to the bonds would have to pay the balance, wouldn't they?

A. That is what an endorsement always means.

Q. Well, just a minute——

A. (Continuing) It means if the other party doesn't pay that the endorser does.

Q. But on this subscription of bonds they had outstanding, certain people subscribed to the bonds, didn't they? [1094] A. They did.

Q. Yes, and they paid 25% of the subscription, didn't they? A. Was paid in cash.

(Testimony of C. W. Platt.)

Q. Yes. Now, then, they were responsible for the balance, weren't they? A. They were.

Q. Under this subscription agreement?

A. They were.

Q. And could be called on at any time to pay the balance?

A. They could, and that is what I mean when I say that the endorsement of the Fleishhackers meant nothing more than an endorsement ever means; that if the other fellow doesn't pay, the endorser does.

Q. All right. How much of a value are you going to put on that?

A. I have already testified to that in an earlier proceeding and it has been referred to in this proceeding, $150,000.

Q. That is not part of the services? You have separated the two?

A. That is something else.

Q. All right. Now, let's stay on services for a minute. What other services did the Fleishhackers perform in the early period of Northwestern?

[1095]

A. They acted as officers of the company and gave all the administrative services that were required.

Q. Well, that is fine. And as officers, what services did they perform?

A. The services that go with such an undertaking, of administrative officers.

Q. When did they become officers?

(Testimony of C. W. Platt.)

A. I haven't the information available.

Q. They became officers about March of 1912, isn't that correct? Will you verify that, Mr. Platt?

A. Not from anything I have at hand.

Q. Will you check that this evening?

A. I will.

Q. Now, as I understand these services, you have carried up to the year 1914, is that correct?

A. July 1, 1914.

Q. Well, now, particularly—you can't say any particular services that were performed by the Fleishhackers, can you?

A. Not after twenty-eight years have elapsed.

Q. That is right. And the fact is they were not here in Portland, were they, during this period of time, in connection with the affairs of Northwestern Electric Company?

A. They were from time to time but it wasn't necessary [1096] for them to supply these services in Portland.

Q. I understand that. Have you any records showing what services they performed here in Portland up to July 1, 1914, for the Northwestern Electric Company? A. No.

Q. So, as a matter of actual fact, of your own knowledge, as far as Portland goes, you do not know whether they performed any services in Portland up to July 1 of 1914?

A. I know that they were the responsible heads—

Q. (Interrupting) Now, just a minute.

(Testimony of C. W. Platt.)

A. May I answer the question?

Q. All right, go ahead.

A. I know that they were the responsible heads of the Company, and whether those services were performed in Portland or in San Francisco, to me it seems perfectly plain that they must have performed these services and they must have performed them ably because out of that period of development, July 1, 1914, we had a concern that was —that had valuable property constructed and that had customers connected on its lines. Those things don't just happen.

Q. But as to the individual services, you have to assume that, do you not?

A. I do, and it is a very reasonable assumption.

Q. What do you think the Fleishhackers consider the [1097] value of this common stock then, at the time it was issued?

A. I do not know.

Q. What do you think the Northwestern Company considered the value of that stock when it issued it to the Fleishhackers?

A. The value to them, to Northwestern, or to the Fleishhackers?

Q. I asked you—if you knew what the Northwestern Electric Company considered the value of the stock that they issued at the time of its issuance?

A. Well, they placed a value of $10,000,000 on it.

(Testimony of C. W. Platt.)

Q. How much?

A. The Company placed a value of $10,000,000 on it.

Q. Wasn't that an exhorbitant valuation at the time of the issue, for any services that might have been performed by the Fleishhackers?

A. Yes, I think that was too high.

Q. The Fleishhackers have made considerable money out of the Northwestern Company, with relation to their dealings in the preferred stock, have they not? A. I don't know.

Q. Well, they subscribed to the first issue of preferred stock at 75, did they not?

A. I believe that was the first subscription price.

Q. That was later converted to 7% preferred stock at [1198] par, was it not?

A. No, it was not.

Q. What was it converted to?

A. Converted on the basis of one share of 6% stock for nine-tenths of a share of the 7.

Q. That made up the difference in interest rate, isn't that correct? A. Dividend rate.

Q. But they still had to convert it from 75 to par then, isn't that correct?

A. Yes. I don't know whether the Fleishhackers, with respect to their holdings of 6% stock, converted or sold it on the market as 6% stock, nor do I know what profit, if any, they made on it.

Q. Well, in valuing the services of promoters, it would make a difference as to the character of

(Testimony of C. W. Platt.)

the enterprise which they organized, would it not?

A. Well, if I understand your question correctly I should say the answer was that the results achieved are the things that should be looked at.

Q. Well, if the promoters had only in mind the furnishing of electricity to the mills at Camas, you would not give that the same consideration in valuing their services as if they had in mind and contemplated in the first instance furnishing electricity as a public utility, would [1099] you, in a competitive field such as Portland or Washington?

A. No, and I have not so done.

Q. You have considered it as a public utility from its inception? Isn't that correct?

A. Well, it developed into that within such a brief period of time after the date of the incorporation that I can't see that it is anything other than that.

Q. It wouldn't make any difference?

A. I don't believe it would.

Q. Well, in your consideration of it, did you give consideration to that factor? What I want to know is, did you know what the original purpose of the Northwestern Electric Company was when you valued the services of the promoters?

A. I didn't value the services of the promoters on the basis of what they conceived it on the 7th day of January, 1911, but on the basis of what they did.

(Testimony of C. W. Platt.)

Q. On a present-day basis, is that it? Is that what you are valuing the services of the promoters, upon what is represented today as the value of the Northwestern Electric Company?

A. You mean that I have placed $400,000 on the total?

Q. No, I am talking about any value.

Mr. Laing: Mr. Examiner, I submit that the witness be allowed to finish his answer without interruption. [1100]

The Trial Examiner: Yes, Mr. Platt, you may answer the question in your own way.

Mr. Laing: Will you read the former question that Mr. Kurtz just answered?

(Question and answer read as follows: "Q. Well, in your consideration of it, did you give consideration to that factor? What I want to know is, did you know what the original purpose of the Northwestern Electric Company was when you valued the services of the promoters?

"A. I didn't value the services of the promoters on the basis of what they conceived it on the 7th day of January, 1911, but on the basis of what they did.")

The Witness: Well, if I understand the question, and in the event I do not I would like to have it straightened out,—I have not attempted to place any value on the services of the promoters controlled by what they may have had in their minds

(Testimony of C. W. Platt.)

on the date of organization, January 7, 1911, but rather upon what services were rendered thereafter, and the results achieved.

Q. Of 1914? A. To July 1, 1914.

Q. Will you refer to the special trustees meeting of April 8, 1912? Have you that before you?

A. Yes, I have that.

Q. And what was the object of that meeting?

[1101]

A. That was a meeting called to amend the articles of incorporation.

Q. Will you read what was adopted at that meeting?

Mr. Laing: What meeting are you referring to, Mr. Kurtz?

Mr. Kurtz: April 8, 1912.

A. The following amendment to the articles of incorporation of Northwestern Electric Company was adopted. Article 2, subdivision 24: "To sell electric power, electric light, to private consumers outside the limits of the municipality, and to sell electric power to private consumers within the limits of the municipality, and with respect to these purposes, this corporation hereby assumes and undertakes to the state of Washington and to the inhabitants thereof the duties of a public service corporation."

By Mr. Kurtz:

Q. And the meeting was adjourned?

(Testimony of C. W. Platt.)

A. Yes.

Q. And we can assume, can we not, Mr. Platt, that up to this date the Northwestern Company had not contemplated rendering service as a public utility company, can we not?

A. It took no action with respect to it. It may have contemplated it for months before that, but it took no action to put itself in a position by altering its articles of incorporation so that it could do it. [1102]

Mr. Laing: Mr. Kurtz, I might explain.

Mr. Kurtz: It is not in the record and I wish you would clear it up.

Mr. Laing: The point that is involved in that amendment to the articles is purely a technical, legal question having to do with the Washington laws on condemnation, and there had been a statute passed in Washington that provided, with respect to the condemning of property for public utilities, that if a corporation by its articles expressly assumed the duties of a public utility corporation it could then condemn. And that was the only technical reason and the sole purpose of that amendement. It had nothing to do with their determination to engage in public utility business, I can assure you that.

If you wish any enlargement on that, why, we can demonstrate that by correspondence and other matters. [1103]

MR. C. W. PLATT

Being called to the stand for further Redirect examination testified as follows, towit:

Redirect Examination

By Mr. Laing:

Q. Mr. Platt, I believe you were asked to get some information for Mr. Kurtz at the adjournment of the hearing yesterday?

A. Mr. Kurtz asked me to get some information about the individuals who held office in the Northwestern Electric Company near the beginning of its corporate existence. And particularly bearing upon the question of when the Messrs. Fleishhacker became officers in the company. Mr. Herbert Fleishhacker first became an officer—an elected officer, as distinguished of course from his position on the board of trustees on March 20th, 1912. He became at that time treasurer. He became President on February 13, 1913. And Mortimer Fleishhacker became Vice-President on March 20, 1912. Now, Mr. Kurtz, I would like to explain to you if I may, how I look upon these men and their places, in the Northwestern organization. They were, in fact, the men who were behind this undertaking, the Northwestern Electric Company. They were the [1106] ones who put the initial advance money into the project. And the other men who held office from the date of incorporation up until March 20, 1912, were men acting in subordinate capacities to the

(Testimony of Mr. C. W. Platt.)

Fleishhackers, so far as the responsibility for the undertaking was concerned. I remember quite well when the Northwestern came into Portland, being in the utility business at the time, my own mind was naturally concentrated on them, as was the other utility men in Portland. And we knew, and it was common knowledge that this was a Fleishhacker project. And furthermore and independent of that, which might have some element of hearsay in it, I had occasion to go through great quantities of correspondence in the past, that, of necessity, had to do with the things that we were trying to determine in 1932 and 1933 when the Oregon commissioner was conducting an investigation. And to my mind there was no question as revealed in that correspondence, that the Fleishhackers were the men behind the enterprise, and that they were the responsible parties.

Q. In your reference, Mr. Platt, in your direct testimony to the administrative and executive services, [1107] it was not intended to be confined to a time when they nominally held any particular offices, is that correct? A. That is correct.

Q. In other words, according to your point of view, these men would be directing heads of the enterprise from the very beginning?

A. They were.

Q. And I think, if I recall your testimony correctly, that you referred to their services as their administrative and executive services rather than

(Testimony of Mr. C. W. Platt.)

their services as holding any particular office, isn't that correct?

A. That was the language I used, and it had the meaning that I have just explained. [1108]

Now I would like to ask you in the first place, Mr. Platt, if there has ever been in the case of the Northwestern Company any final order by either the Oregon or the Washington Commissions having to do with or fixing a rate base to be used in checking the company's operations?

A. There has never been a final order.

Q. In the case of the Oregon Commission, the first order which undertook to fix a rate base or a value for rate-making purposes was made, was it not, by Commissioner Thomas some time in the month of August, 1932? A. Yes, sir.

Q. And that order was taken into the United States District Court by the Company in a proceeding to contest the validity of that order, was it not? A. It was.

Q. And later, on the motion or action of the Commissioner himself, was not that order vacated completely? A. It was.

Q. And then, following hearings that were held in Portland in 1933, another valuation order was made, was it not, by Commissioner Thomas of the Oregon Commission, some time in 1934? [1112]

A. That is right.

Q. And speaking briefly, what was the disposition of that order?

(Testimony of Mr. C. W. Platt.)

A. That order was dismissed and vacated by action of the then Commissioner on June 4, 1938.

Q. That was Commissioner Wallace, was it not?

A. That is right.

Q. And in the meantime, that order had been appealed to the Circuit Court of Multnomah County, had it not? A. That is right.

Q. And after a considerable period of discussion and delay it was remanded to the Commissioner to take further testimony and to make findings on various matters?

A. That is right. [1113]

Q. Now another subject that was taken up in this reclassification report of the company and that has been discussed in this proceeding, is the matter of interest during construction for the period from 1914 to 1924, inclusive. As to that, the company claims in its reclassification report that interest in amounts testified to by you on your direct examination should now be added to the capital accounts for property installed during that period to reflect a cost incurred by the company in the way of interest during the construction period which was [1118] not recorded on the books at that time or subsequently. In your judgment as an accountant is the making of such an adjustment on your books at this time the correction of an accounting error, or what sort of an animal is it?

A. I think it is the correction of an accounting error.

(Testimony of Mr. C. W. Platt.)

Q. Is that so, even though the failure to record the interest at that time was intentional or deliberate?

A. It may have been intentional and deliberate on the part of the accounting staff of the company, but I fail to find anything that indicates that it was a company or managerial policy to omit the capitalization of interest. I just think it is a plain accounting error.

Q. Well, let us even assume now, Mr. Platt, that the management had felt it was not important, or had instructed the accountant not to do it, would you still feel that that interest should be recorded at this time?

A. I would still feel that.

Q. If you or the accountants for the regulatory bodies should go through the books as of any recent or even long past period, and find that there had been intentionally and deliberately recorded on the company's books, an item we will say of corresponding size, about $30,000.00, somewhere around $30,000.00 as a capital charge to cover a disbursement which on analysis appeared clearly to be an operating or maintenance charge, would the fact that that was recorded deliberately and [1119] intentionally have any effect as to whether or not it should be reclassified to operating expenses, as compared to capital? A. It should have no effect.

Q. In other words, the process of correcting

(Testimony of Mr. C. W. Platt.)

accounting errors is a bilateral and not a unilateral process, in your judgment, is that correct?

A. That is correct.

Q. Then I take it on the basis of that opinion and understanding on your part that you feel that this interest should now be capitalized during that period of construction when it was not capitalized, is that correct? A. I do. [1120]

Q. Mr. Platt, you have before you several sheets that have been bound together, a copy of which has been handed to the Reporter, and which consists of what, Mr. Platt.?

A. They are copies of the original articles of incorporation, and amendments thereto, to and including an amendment which was made by the Board of Trustees of the company on April 18, 1914.

Q. Well, let us take them up in order. The first complete document in this set of papers consists of the original articles of incorporation of the company, does it not, as filed in the office of the Secretary of State on January 7, 1911?

A. Yes, sir.

Q. And the next two pages refer to an attempt to amend the articles of incorporation in respect to subdivision 24 of article 2 of the original articles?

A. That is right.

Q. But referred to in the certificate as amendments to the bylaws, as you will note by reading it?

(Testimony of Mr. C. W. Platt.)

A. It is so stated.

Q. That is the document which Mr. Kurtz was referring to yesterday as the amendment adopted in April of 1912? A. That is right. [1135]

Q. And the next document which consists of three pages, is the certificate that was filed by the corporation on the 23rd of July of 1912, authorizing an increase in the capital stock from five million dollars to ten million dollars?

A. That is right.

Q. And the next and final document is the certificate which was filed for record in the office of the Secretary of State on April 24, 1914, increasing the authorized capital stock from ten million dollars to twelve million dollars, the additional amount making provision for the six percent preferred stock? A. That is right.

Q. And these have been carefully prepared from the originals or certified copies of the originals in your custody and possession, were they not?

A. Yes, sir. [1136]

EXHIBIT No. 71

No. 29333

We, the undersigned, B. A. DeYarmon, of the City of Vancouver, in the County of Clarke and State of Washington, and H. H. Parker, of the city of Portland, in the County of Multnomah and State of Oregon, being desirous of forming a cor-

(Testimony of Mr. C. W. Platt.)

poration under and in pursuance of the laws of the State of Washington, for the purposes hereinafter set out, do hereby make, execute and acknowledge, in triplicate, the following

ARTICLES OF INCORPORATION

Article I.

The name of this corporation shall be and is Northwestern Electric Company.

Article II.

The objects for which this corporation is formed are as follows:

1. To develop, generate and furnish electricity for the purposes of supplying cities, towns, villages, municipal corporations, communities and the inhabitants thereof, with light and with electricity for lighting purposes.

2. To develop, generate and furnish electricity for the purpose of supplying cities, towns, municipal corporations and communities with heat, and with power for heating purposes.

3. To develop, generate and furnish electricity for the purpose of supplying heat, light or power to any public corporation for any public purpose or public use whatsoever.

4. To supply cities, towns, villages, communities, municipal and other public corporations, and the inhabitants thereof, with light, and to utilize elec-

(Testimony of Mr. C. W. Platt.)

tricity for any public use, including heating, lighting and power.

5. To develop, generate, and furnish electricity for any public use.

6. To supply cities, towns, villages, communities, municipal and other public corporations, and the inhabitants thereof, with gas for lighting or for any other purpose which is or will be a public use.

7. To supply cities, towns, villages, and communities, municipal corporations, and the inhabitants thereof, with water, and for any such purposes to purchase or otherwise acquire, erect, own and operate water works.

8. In respect to all or any of the foregoing purposes, to discharge all the duties of a public service corporation, and to receive tolls and compensation in respect to all or any of such purposes, all subject to such regulations as may now or hereafter be prescribed by law.

9. To develop, generate, furnish and utilize electricity for heat, light and power and for manufacturing, mining and industrial purposes, and for any other purpose for which electricity is now or may hereafter be used.

10. To construct, acquire by purchase, lease or otherwise, operate and maintain and dispose of, railroads, street railways, interurban railways, or other means of transportation, whether operated by steam, electricity, or other motive power, either

(Testimony of Mr. C. W. Platt.)

as a common carrier for the conveyance of passengers and freight, for hire, or otherwise.

11. To operate gas works, and to supply and utilize gas for any purpose.

12. To furnish and utilize water and water rights, powers and privileges for manufacturing, industrial, mining, irrigation, agricultural, stock and domestic purposes, and for any other purpose for which water may be used.

13. To engage in and conduct a general logging business, and to cut, manufacture, buy, sell and deal in logs, timber and lumber, and operate saw mills and shingle mills.

14. To engage in and conduct all kinds of mercantile business.

15. To plat, dedicate, and lay out, town sites, and to buy, sell and deal in real estate.

16. To acquire, own and operate mines of all kinds.

17. To construct, acquire, own and operate telegraph and telephone lines.

18. To acquire by purchase, lease, exchange, or otherwise; to erect and construct; to hold, own, operate and maintain, all water rights, powers and privileges, dams, piers, booms, wharves, rights of way, reservoirs and reservoir sites, canals, flumes, ditches, plants, mills, warehouses, buildings, pole lines, transmission lines, apparatus, appliances, machinery, conduits, and any and all other property of every nature, real or personal, requisite, con-

(Testimony of Mr. C. W. Platt.)

venient or desirable for the purpose of carrying on any of the businesses for which this corporation is formed; to acquire any and all franchises, licenses, permits, grants, privileges, easements and rights of way, of every nature, from the Government of the United States, or from a state, county, city, municipality, or any person or corporation whatsoever, requisite, convenient or desirable for the conduct of any of the corporate business.

19. To acquire by the exercise of the right of eminent domain and by condemnation proceedings, to such an extent and in such manner as may now or hereafter be authorized by law, any and all property and rights requisite, convenient or desirable.

20. To subscribe for, acquire by purchase or otherwise, and to own, hold, sell, assign and transfer shares of the capital stock of any other corporation, and by its duly authorized officers or proxy, to vote such shares at any and all stockholders' meetings of the corporation whose shares are so held, and to have and exercise all the rights, powers and privileges of any other stockholder, except as exempt by law; and to acquire by purchase, or otherwise, and to hold, own, sell or dispose of, bonds and other obligations of other corporations or of individuals.

21. To make promissory notes, bills of exchange, or other evidence of indebtedness, and to borrow and lend money; to secure in such manner as to it may seem proper, the payment of any debt, prom-

(Testimony of Mr. C. W. Platt.)

issory note, bond, indenture, or other evidence of indebtedness of the corporation; and to mortgage, pledge, give or convey in trust, any or all of its property, real and personal, including its franchises or rights.

22. To do and perform any or all other acts and things and to acquire and dispose of any and all property, real, personal and mixed, that may be necessary, proper, convenient or desirable for the accomplishment of all or any of the objects and purposes in these Articles mentioned.

23. This corporation shall be privileged to engage at pleasure in any business for which it is formed, and to discontinue any such business at pleasure, subject to such limitations as may now or hereafter be imposed by law.

Article III.

The capital stock of this corporation shall be five millions of dollars ($5,000,000.00), divided into fifty thousand (50,000) shares of the par value of one hundred dollars ($100.00) each.

Article IV.

The time of the existence of this corporation shall be fifty (50) years.

Article V.

The number of trustees of this corporation, who shall manage its concerns until six o'clock P. M. on

(Testimony of Mr. C. W. Platt.)

the 15th day of March, 1911, shall be five, and their names and places of residence are as follows:

B. A. DeYarmon, Vancouver, Washington;
B. C. Condit, Oakland, California;
C. E. S. Wood, Portland, Oregon;
H. H. Parker, Portland, Oregon;
Erskine Wood, Portland, Oregon;

and thereafter the number of the Trustees of the company shall be five.

Article VI.

The principal place of business of the corporation shall be located in Vancouver, County of Clarke, State of Washington.

In witness whereof, the undersigned have hereunto set their hands this 6th day of January, A. D. 1911, in triplicate.

Executed in the presence of:
GEO. D. YOUNG
BERT YATES
B. A. DeYARMON
H. H. PARKER

State of Washington,
County of Clarke—ss.

This certifies, that on this 6th day of January, 1911, before me, Geo. D. Young a Notary Public residing at Vancouver, in the State of Washington,

(Testimony of Mr. C. W. Platt.)

personally came B. A. DeYarmon and H. H. Parker, to me known to be the individuals described in and who executed the foregoing Articles of Incorporation, and acknowledged to me that they executed the same as their free and voluntary act and deed, for the uses and purposes therein set out.

Witness my hand and official seal this 6th day of January, 1911.

GEO. D. YOUNG

Notary Public in and for the State of Washington, residing at Vancouver, in the County of Clarke, in said State.

Geo. D. Young,
Notary Public,
State of Washington,
Commission expires,
Sept. 9, 1914

[Endorsed]: State of Washington—ss.

Filed for record in the office of the Secretary of State, at 3.41 o'clock PM Jan. 7, 1911.

Recorded in Book 89, page 511, Domestic Corporations.

I. M. HOWELL,
Secretary of State.

(Testimony of Mr. C. W. Platt.)

No. 32085

Article II

Subdivision 24.

"To sell electric power and electric light to private consumers outside the limits of a municipality and to sell electric power to private consumers within the limits of a municipality; and in respect to these purposes this corporation hereby assumes and undertakes to the State of Washington, and to the inhabitants thereof the duties and obligations of a public service corporation."

We, H. A. Mitchell, President of the Northwestern Electric Co., and R. E. Wallace, Secretary of the Northwestern Electric Co. hereby affirm that the above is a true and correct copy of amendment to the By-Laws of this Company, as adopted at a special meeting of the Trustees of the Northwestern Electric Company, held at the San Francisco office of the Company, Room 702 Shreve Building, Monday April 8th, 1912, at four o'clock P. M.; And, that a quorum of the Trustees was present at said meeting; And, that the written assent of two-thirds of the capital stock was filed with the Secretary of this meeting.

N. A. MITCHELL
President
R. E. WALLACE
Secretary

[Northwestern Electric
Company
Corporate Seal]

[Endorsed]: State of Washington—ss.

(Testimony of Mr. C. W. Platt.)

Filed for record in the office of the Secretary of State April 17, 1912, at 3:01 P. M. o'clock.

Recorded in Book 97, page 657, Domestic Corporations.

I. M. HOWELL,
Secretary of State.

No. 32552

This is to certify

That at a meeting of the stockholders of Northwestern Electric Company held at the office of the Company in Vancouver, Washington, on the 14th day of May, 1912, at 2 o'clock P. M. pursuant to a written notice, signed by a majority of the trustees of the Company and specifying the objects of the meeting, to wit, to increase the capital stock of the Company from five million dollars to ten million dollars, and the time and place where the meeting was to be held (the publication of which notice for eight weeks in a newspaper published in the county where the principal place of business of the Company is located being expressly waived in writing by each and every one of the stockholders of the Company), at which meeting all of the stockholders of the Company were present, either in person or by proxy, it was resolved by a unanimous vote to increase the capital stock of the Company from Fifty thousand shares of the par value of one hundred

(Testimony of Mr. C. W. Platt.)

dollars each to one hundred thousand shares of the par value of one hundred dollars each;

That the amount of the capital of the Company actually paid in is Five Million Dollars:

That the whole amount of the debts and liabilities of the Company is One Million three hundred six thousand eight hundred sixty nine and 48/100 dollars.

That the amount to which the capital stock is to be increased is ten million dollars.

M. M. CONNOR
Chairman of the Meeting

H. H. PARKER
Secretary of the meeting.

HERBERT FLEISHHACKER
R. E. WALLACE
H. A. MITCHELL
Trustees

[Northwestern Electric Company Corporate Seal]

State of Washington,
County of Clarke—ss.

I, M. M. Connor, first being duly sworn, say that I believe the above certificate to be true.

M. M. CONNOR

Subscribed and sworn to before me this 22nd day of July, 1912.

P. P. DABNEY
Notary Public for Oregon residing at Portland therein

(Testimony of Mr. C. W. Platt.)

My Commission expires October 27, 1913.

[P. P. Dabney
Notary Public
State of Oregon]

State of Oregon,
County of Multnomah—ss.

I, H. H. Parker, first being duly sworn, say that I believe the above certificate to be true.

H. H. PARKER

Subscribed and sworn to before me this 22nd day of July, 1912.

P. P. DABNEY
Notary Public for Oregon residing at Portland therein

My Commission expires October 27, 1913.

[P. P. Dabney
Notary Public
State of Oregon]

[Endorsed]: State of Washington—ss.

Filed for record in the office of the Secretary of State, at 4:11 o'clock PM July 23, 1912.

Recorded in Book 98, page 460, Domestic Corporations.

I. M. HOWELL
Secretary of State

(Testimony of Mr. C. W. Platt.)

CERTIFICATION OF INCREASE OF CAPITAL STOCK OF NORTHWESTERN ELECTRIC COMPANY

This is to certify that a special meeting of the stockholders of Northwestern Electric Company was held in Vancouver, Washington, at 10 o'clock on the morning of the 8th day of April, 1914, pursuant to due notice signed by a majority of the trustees and duly sent to each stockholder and published daily (except Sundays) for more than eight successive weeks prior to said meeting in the Vancouver Columbian, a newspaper regularly published in Vancouver, Washington, that being the principal place of business of the Company in the state of Washington; that said notice specified the object of the meeting, to wit, to increase the capital stock of the Company, and the time and place where said meeting was to be held and stated the amount to which it was proposed to increase the capital; that at said meeting all of the stockholders were present, either in person or by proxy, and represented all of the capital stock of the Company, and on motion duly made and seconded the following resolution was adopted by unanimous vote:

> Resolved, that the capital stock of Northwestern Electric Company be and the same is hereby increased to one hundred and twenty thousand shares, of the par value of One Hundred Dollars ($100.00) each, making a total

(Testimony of Mr. C. W. Platt.)

capital of Twelve Million Dollars ($12,000,000) of which twenty thousand shares, representing Two Million Dollars ($2,000,000) capital, shall be preferred stock bearing interest at the rate of six per cent per annum.

That the amount of the capital stock of the Company actually paid in is $10,000,000.00 Dollars; that the whole amount of the debts and liabilities of the Company is $4,435,899.93 Dollars; that the amount to which the capital stock is to be increased upon the filing of this certificate is one hundred and twenty thousand shares of the par value of One Hundred Dollars ($100.00) each, making a total capital of Twelve Million Dollars ($12,000,000) of which twenty thousand shares, representing Two Million Dollars ($2,000,000) capital shall be preferred stock bearing interest at six per cent per annum.

W. E. COMAN
Chairman of the Meeting

B. GOODWIN
Secretary of the Meeting

State of Washington,
County of Clarke—ss.

Know all men by these presents, that on the 8th day of April, 1914 before me, a notary public of the State of Washington, residing at Vancouver, therein, personally appeared W. E. Coman and B. Goodwin, to me known as the persons who subscribed

(Testimony of Mr. C. W. Platt.)

the foregoing certificate, and subscribed the same in my presence, and being duly sworn by me said that the same is true, as they verily believed.

In witness whereof, I have hereunto set my hand and seal.

WM. C. BATES
Notary Public for Washington

[Wm. C. Bates
Notary Puble
Commission exipres
Jun. 25, 1917.
State of Washington]

We, M. M. Connor, Herbert Fleishhacker and A. N. Baldwin, being a majority of the trustees of Northwestern Electric Company, hereby certify that the foregoing certificate is true, and that said W. E. Coman and B. Goodwin were respectively the chairman and Secretary of the meeting mentioned in said certificate.

W. E. COMAN
HERBERT FLEISHHACKER
A. N. BALDWIN
Trustees

[Corporate Seal]

[Endorsed]: State of Washington—ss.

Filed for record in the office of the Secretary of State, April 24, 1914 at 4.39 o'clock P. M.

Recorded in Book 103, page 332. Domestic Corporations.

I. M. HOWELL
Secretary of State

(Testimony of Mr. C. W. Platt.)

EXHIBIT No. 72

TRUSTEES MEETING
NORTHWESTERN ELECTRIC COMPANY

Pursuant to the call of the President, a special meeting of the Trustees of the Northwestern Electric Company was held at the San Francisco Office of the Company, Room 804, California Pacific Building, 105 Montgomery Street, on Wednesday, June 12th, 1912, at 4 o'clock P. M.

Trustees present:

H. A. Mitchell,
Mortimer Fleishhacker
Herbert Fleishhacker, and
R. E. Wallace.

Trustees absent:

M. M. Connor.

The waiving notice of M. M. Connor as Trustee for this meeting is attached.

President H. A. Mitchell in the chair.

Upon motion of Trustee R. E. Wallace, seconded by Trustee Herbert Fleishhacker, the following resolution was unanimously adopted:

"Whereas, the subscribers of the capital stock of Northwestern Electric Company and their assignees have since the inception of the company been acquiring riparian lands, water rights and other properties and have, in addition to the time and labor spent in acquiring said rights and properties, fur-

(Testimony of Mr. C. W. Platt.)

nished all of the funds for the acquirement of these rights and properties, which funds have been raised by ratable contributions by said subscribers and their assigns, and

Whereas, the deeds and contracts for many of these rights and properties have been taken in the name of the company and others in the name of Mortimer Fleishhacker and others in the name of other parties,

Now, therefore, be it resolved, that the properties and rights hereinafter enumerated under Schedule "A", now standing in the name of the Company and which have been acquired by the Company through the expenditure of the time, labor and money of the subscribers and their assignees, and the assignments and conveyances to be made to the Company of the rights and properties hereinafter enumerated under Schedule "B", be accepted by this corporation in full payment of the following stock subscriptions, to-wit:

C. E. S. Wood	1 share
Erskine Wood	1 share
H. H. Parker	1 share
B. A. DeYarmon	1 share
B. C. Condit	4996 shares

Schedule "A" (Rights and properties now standing in the name of the Company.)

The lands and rights described as follows:

(Note: This is followed by 35 pages of detailed description of properties.)

(Testimony of C. W. Platt.)

Schedule "B" (Rights and properties to be assigned and conveyed to the Company.)

(Note: This is followed by 3 long paragraphs of rights and contracts to be assigned to the Company.)

There being no further business, the meeting adjourned.

R. E. WALLACE
Trustee
M. FLEISHHACKER
Trustee
H. A. MITCHELL
Trustee

State of Oregon,
County of Multnomah—ss.

I, C. W. Platt, secretary of Northwestern Electric Company, a corporation organized and existing under the laws of the State of Washington, do hereby certify that the annexed minutes of a meeting of the board of trustees of Northwestern Electric Company held on the 12th day of June, 1912, at San Francisco, California, are a true and correct copy, except as indicated by the reference notes therein, of the minutes of said meeting of said board of trustees as recorded in the minute book of the company in my custody.

Witness my hand and the seal of said corporation this 1st day of August, 1940.

C. W. PLATT

[Corporate Seal]

(Testimony of C. W. Platt.)

Q. Mr. Platt, you have discussed at considerable length the services and attention given to the organization and development of the company by the Messrs. Fleishhacker during the period from January of 1911 to July 1, 1914. And you have also at various times made some reference to their services in supplying their credit and making funds available to the corporation.

I wish you would give us a more detailed chronological summary of what those financing services were made up of. [1142]

The Witness: Mr. Mortimer and Mr. Herbert Fleishhacker were members of the firm of A. Fleishhacker & Sons, which firm advanced cash for the purchase of lands and for engineering services, in the aggregate amount of $174,661.

By Mr. Laing:

Q. Were those the advances that were evidenced by the voucher that Mr. Smith put in evidence yesterday as Exhibit 69, copy of voucher 219, reimbursement of the Fleishhackers for their expense through May 6, 1912? A. Yes.

Q. And the detailed expenditures that were reimbursed ultimately in that voucher are tabulated in the voucher itself, are they? A. Yes.

Q. And over what period of time do these expenses run, Mr. Platt? I know when the closing period was, but when did they begin? [1143]

A. They began December 7, 1910, and the last such advance was made May 6, 1912.

(Testimony of C. W. Platt.)

Q. You may proceed, then.

A. Now, early in 1912 there were some borrowings from banks in New York and Chicago which were secured by bonds issued under a mortgage that was given early in that year. There were other borrowings, however, which came in as of March 1, 1913. One was $100,000 from the Continental—they were both from the Continental & Commercial Bank of Chicago, two separate notes for $100,000 each executed by the then president of the company, Herbert Fleishhacker, and endorsed by A. Fleishhacker & Company, of which firm Herbert Fleishhacker was a member.

Q. What were the dates of those borrowings, Mr. Platt?

A. March 1, 1913. Also, numerous notes were given in payment for construction material and equipment.

Mr. Slaff: You have used that—if I may break in for just a moment—you have used that term "numerous notes were given" in the testimony before the State Commissions, and that matter has been explored by you, as I recollect it, in those cases? A. Yes.

By Mr. Slaff:

Q. How many notes were there?

A. This is repetition. [1144]

Q. There were three small notes, weren't there?

A. As I recall, three which I think in the ag-

(Testimony of C. W. Platt.)

gregate may have been some place between $100,000 and $150,000. I am glad to be explicit.

Mr. Slaff: Yes.

The Witness: And then, reference has heretofore been made to the endorsement by the Messrs. Fleishhackers on the gold note issue, which was approximately $3,000,000.

By Mr. Laing:

Q. Now, is it a fair statement to make, then, Mr. Platt, that whatever capital this company had to do business on from January, 1911, to July 1, 1914, was made available by the Fleishhackers? Is that correct—in one form or another?

A. I would not say that all of the capital was made available on their credit. It was made available through their efforts.

The reason I have to qualify that is that there were some loans in the year 1912 from the Chase National Bank, of New York, and the Continental & Commercial National Bank of Chicago, that were not endorsed; but they were backed up by these—by bonds under the mortgage that I have referred to, part of which bond issue had been subscribed by the Fleishhackers.

Q. Well, my question was whether the capital had been made available by the Fleishhackers. I meant through their [1145] efforts.

A. That is true. It was through their efforts that it was made available.

Q. And I understand you to say that in con-

(Testimony of C. W. Platt.)

nection with this gold note issue that they made available as part of the security whatever value it may have, 90,000 shares of the common stock during that period, did they not?

A. That is right.

Q. And then in the year 1914, dating from some time in April, they had something to do, did they not, with the selling of the 6% preferred stock and the use of the common stock that was under their control, in furtherance of that sale?

A. That is right.

Q. When did that work begin?

A. That began about the middle of 1914. I don't seem to find my schedule on that. I have it here some place. Is that close enough?

Q. Well, is it not a fact that they began to obtain subscriptions on the sale of that preferred stock shortly after it was authorized, in April of 1914? A. Yes.

Q. And they did, did they not, make a certain amount of their common stock available in connection with that? I believe you testified they made available some 45,000 shares [1146] of common stock? A. Common stock.

Q. In aid of the preferred stock sale?

A. That is right.

Q. And that, as I understand you to say, extended over a period from April of 1914 until some time into the following year. Is that correct?

(Testimony of C. W. Platt.)

A: Yes. It continued during the year of 1915.

Q. In your attempt to determine the fair cash cost to the company of the services that the Fleishhackers had rendered to the company in consideration for the issuance to them of the common stock, you have placed a cash value on those services of $100,000 for their administrative, executive and promotional services of a general character; $150,000 as representing their financing services in connection with the borrowing of money for various purposes; and some $150,000 for their reimbursement or compensation to them in connection with the preferred stock sales. Is that correct?

A. Yes.

Q. And although, as I understand you now to say that some of that—a considerable part, at least, of the work in connection with the preferred stock sales took place after the first of July, 1914. What is your basis for including that $150,000 in their services—I mean for their services [1147] during the organization period?

A. The reason I included that was that I thought that that was part of the initial financing of the company.

Q. In other words, you are judging the cash value to the corporation, that it received in exchange for the stock, by what they actually did, what the Fleishhackers actually did for the corporation in return for that stock, is that it?

(Testimony of C. W. Platt.)

A. Yes, rather than the exact time when they may have done it.

Q. And that was clearly indicated in your previous discussion of this matter before the two State regulatory bodies, was it not? A. Yes.

Q. Now, in response to a question that was asked you I believe on cross examination, I think you acquiesced in the statement that the Oregon Commissioner or the Oregon Commission staff—I think it was the Oregon Commissioner, decided that no part of this $400,000 should go into the fixed capital account of the company. Was there ever any final order entered by the Oregon Commission which included any such decision as that? A. No.

Q. The only order that was made by the Oregon Commissioner on the subject of the value of the company's proper- [1148] ty, following the discussion or the presentation of the evidence with respect to this $400,000 of services, was the 1934 order that you have previously testified about, is it not?

A. Yes.

Q. And that was the order which was taken into the Circuit Court of Multnomah County, and after a period of several years was finally vacated and dismissed by Commissioner Wallace? Is that right? A. That is right.

Q. Now, it was pointed out in your direct testimony and brought out, I think, by other witnesses there was recorded on the books of the Northwestern

(Testimony of C. W. Platt.)

Electric Company as of December 31, 1936, a change in your operating capital account with respect to this item of $400,000, which you had previously recorded on your books as of December 31, 1922, in account 301, Organization. Is that not right?

A. That is right.

Q. That change was made on December 31, 1936, and consisted of what, Mr. Platt?

A. Consisted of moving out of organization expense the sum of $300,000, leaving therein an amount of $100,000 of the total of $400,000.

Q. And classifying the other $300,000 in what sort of an account? [1149]

A. As non-operating intangible capital.

Q. I believe it was Mr. O'Neil who referred to the language of the journal entry or the voucher by which that transfer was made. Can you give us the exact statement on the journal voucher as to what that was?

A. The following appears on that journal voucher by way of explanation: "The transfer from operating fixed capital to non-operating fixed capital, the difference in value of Fleishhackers' stock-selling services, credit backing and personal services (for which they received no compensation) as set up by this company, and the value as determined by the Department of Public Service of the State of Washington in their report dated October, 1936."

(Testimony of C. W. Platt.)

Q. Then you show the rest of the entry, indicating where the figures originated and what they are made up of, is that true?

A. That is right.

Q. In other words, it traces the original $400,000 of journal voucher made as of May 31, 1933, as of December 31, 1932? Is that correct?

A. That is correct.

Q. Now, when you refer, Mr. Platt, to the amount determined by the Department of Public Service of the State of Washington in their report for 1936, was that an order made by the Department of Public Service? [1150]

A. No, it was not. It was a report made by their engineer.

Q. And was that report submitted to the Department in a proceeding later on?

A. I believe it was.

Q. Does the report purport to reflect any adjustments or considerations of the company's plant account that had previously been considered by the two Commissions jointly? A. It does.

Q. The Oregon and the Washington Commissions? A. Yes.

Q. And involves more than this one adjustment?

A. It involves a number of adjustments in Fixed Capital Account.

Q. In the testimony of Mr. Van Scoyoc at page 857 of the transcript, Mr. Platt——

(Testimony of C. W. Platt.)

A. I have the place, Mr. Laing.

Q. On the previous page, reference was made by Mr. Van Scoyoc to certain further audits made in 1936 and 1937 to bring the fixed capital accounts on an adjusted basis down to December 31, 1936?

A. Yes, there is reference to that.

Q. Then at the top of page 857 Mr. Van Scoyoc is asked this question: "Did the company finally adjust its books as a result of these audits so that as at December 31, [1151] 1936, the company and the Oregon and Washington Commission staff were in agreement relative to the company's fixed capital account". And the answer was "Yes, it can be said with respect to the detailed fixed capital accounts that there was an absolute agreement between the company and the Commission's staff."

The matters which Mr. Van Scoyoc is there referring to, are they or are they not the same matters that are dealt with in this Washington Department of Public Service report that is referred to in this voucher?

A. They are the same items.

Q. And with respect to the same matter, Mr. Kennedy testified at the bottom of page 992 of the transcript as follows: The question was asked: "As a result of audits made by the respective staffs of the Oregon Commissioner and the Washington Department, Northwestern Electric Company adjusted its fixed capital accounts as of December 31, 1936? A. "——by Mr. Kennedy—"Yes, as stated by Mr.

(Testimony of C. W. Platt.)

Van Scoyoc, the company's records were adjusted and were in agreement by primary accounts with the findings of the respective staffs."

That, again, is the same matter which was the basis of the report of the Washington Department of Public Service to which reference was made in this voucher? A. Yes. [1152]

Q. Those adjustments that were discussed and so agreed upon at that time, in addition to this $100,000 item, also included in the classification, too, certain items of property as operating or non-operating, did they not? A. Yes.

Q. And they also included, did they not, the fixing of the status for some million and a half dollars of property that had been floating back and forth across the Columbia River for a number of years because it could not get an agreed allocation?

A. That is right.

Q. And involved the elimination, I think, from the fixed capital account, of one or two items that were regarded as profit and loss charges or something of that sort?

A. Yes, they were items upon which we could not furnish satisfactory proof that they were properly charged to fixed capital.

Q. After these adjustments, as the result of a very thorough and exhaustive study carried on by Mr. Van Scoyoc over a period of a year or so, had been examined and gone over by the company, the fixed capital accounts, with the exception of a few

(Testimony of C. W. Platt.)

of these items, were pretty well agreed upon and determined, were they not? A. Yes.

Q. So that it is a fact, then, that in 1936, follow- [1153] ing these conferences, and in conformity with this agreement which Mr. Van Scoyoc and Mr. Kennedy have testified to, the company wrote down this item of $400,000 on its books to $100,000, is that correct?

A. That is correct.

Q. And on the basis of that being part of a general agreement on items which had been more or less in the air or controversial, and so forth, up to that time? A. That is right.

Q. Did the recording of that transaction in that way represent any change in your judgment as to the cash value to the company of the services which the Fleishhackers had rendered to the company in the organization period?

A. No, it did not. I did it, as I stated in my direct testimony, in deference to the expressed opinion and wishes of the two State regulatory authorities.

Q. And as part of a general intent to get all of these things clarified, so far as they had to do with the historical prudent investment of the company's fixed capital, isn't that a fact?

A. Yes.

Q. Now the problem that you have been confronted with here, as I take it, Mr. Platt, as you have regarded yourself as concerned with in this

(Testimony of C. W. Platt.)

proceeding, was to determine not the cash value to the company of the services you got from the [1154] organizers during the organization period, which you have fixed at $400,000, but the cash value of the consideration which the company gave for those services, is that not a fact? A. Yes.

Q. Am I correct, then, in assuming from your testimony that, having fixed the value of that consideration in the light of such evidence as was available to you, and which you have laid before this Commission, in the amount of $3,500,000, and at the same time having fixed the cash cost or what would have been the cash cost, the fair cash cost to the company for what it received for the stock, at $400,000, you are in effect stating that the company paid $3,100,000 more for these services than the fair cash cost would have been if paid for in cash at the time, is that a fact? A. Yes.

Q. But on the theory that this classification and this investigation involved a determination of the actual cost, the cost to the company, as you laid it out here, the discrepancy between the value of that consideration and the cash value if paid for in cash for what it got, does not enter into your inquiry as to what should be recorded as the cost of the property, is that correct?

A. That is correct.

Q. And of course, in your determination of either the [1155] $400,000 element or the $3,500,000 element, you have not, and are not now under-

(Testimony of C. W. Platt.)

taking to say that either of those figures represents the real value of the equity in the property as measured by other standards than the original cost item? A. No. [1156]

[Printer's Note: Exhibits No. 73 and No. 74 are set forth in volume III.]

EXHIBIT NO. 75

P-U-C ORE. ORDER NO. 2050

Before the Public Utilities Commissioner of Oregon

U-F-526

In the matter of the investigation of the rates, charges and services of the Northwestern Electric Company. (Investigation on Commission's own motion)

Appearances:

Frank S. Grant, City Attorney of Portland, Oregon; O. Laurgaard, City Engineer, Portland, Oregon; John A. Laing, General Attorney for Northwestern Electric Company; Henry S. Gray, Assistant General Attorney, Northwestern Electric Company; James W. Carey, Consulting Engineer, Municipal Ownership League; Kenneth Harlan, Municipal Ownership League; Charles M. Thomas, Attorney for Commission.

Charles M. Thomas, Commissioner: This cause was commenced by the Public Service Commission

of Oregon on April 17, 1928, by the filing of an order of the Commission on its own motion setting forth that an investigation had been made of the rates, charges and services imposed and collected by the Northwestern Electric Company for the furnishing of electric energy to its patrons and that therefrom it appeared that sufficient grounds existed to warrant the Commission in entering upon a formal investigation for the purpose of ascertaining whether the rates and charges of said company were unjust, unreasonable, unjustly discriminatory, or otherwise in violation of law, and ordered as follows:

> "That an investigation be, and it hereby is, instituted by the Commission upon its own motion, without formal pleading, for the purpose of determining whether the rates and charges of the said Northwestern Electric Company for the furnishing of electrical energy to and for the public within the state of Oregon, or either or any of them, are unreasonable, unjustly discriminatory, or otherwise in violation of law, and making such findings and entering such orders as may be necessary to remove any unreasonableness, unjust discrimination or other unlawfulness which may be found to exist."

The evidence developed the following facts:

The Northwestern Electric Company was organized July 14, 1911 under the laws of the State of

Washington and serves with electric energy parts of Portland, Oregon, and Vancouver, Washington; also Rainier, Goble and Prescott, Oregon, and Camas, Kalama, Ridgefield, Woodland, La Center, Washougal, Yacolt, Amboy, Battleground, Hockinson, Orchards and Sifton, Washington. The total population of the cities and towns served is about 350,000. The electric energy which serves this territory is generated from three plants constructed and operated by the company and from the Ariel hydro-electric plant on the Lewis River constructed by the Inland Power and Light Company and operated by the Pacific Power and Light Company. The generating plants owned and operated by the Northwestern Electric Company are:

The Condit hydro-electric plant on the White Salmon River, of 15,000 K.V.A. maximum capacity;

The Pittock steam plant, located in the Pittock Block of 4000 K.W. maximum A.C. capacity and 7000 K.W. maximum D.C. capacity;

The Lincoln steam plant, located at the foot of Lincoln Street, of 50,960 K.V.A. maximum capacity.

The company also renders steam heating service in Portland from steam which is produced at its Pittock and Lincoln stations.

Capital Stock

The issued and outstanding common stock of the company is $10,000,000 and represents 100,000

shares of $100 par value. $5,000,000 was was authorized January 7, 1911 and was issued according to the minutes of the stockholders' meeting of June 12, 1912 for consideration that the subscribers of the capital stock have since the inception of the company been acquiring riparian lands, water rights and other properties and have furnished all of the funds for the acquirement of these rights and properties, which funds have been raised by ratable contributions by said subscribers. $5,000,000.00 was authorized May 14, 1912. No cash was received from sales of common stock. It appears that all the riparian land and other properties were paid for and charged to Fixed Capital.

On April 8, 1914, $2,000,000.00 of 6% Preferred Stock of $100 par value was authorized. The amount issued and outstanding on December 31, 1930 was $99,900.00. The cash received from sales of this stock was $81,386.56, which leaves a discount of $18,513.44 or the stock sold at $81.47 per share.

On October 14, 1920 $10,000,000 of $100 par value 7 per cent cumulative non-callable preferred was authorized. The amount issued and outstanding on December 31, 1930 was $4,720,000.00. The cash and property received for this stock is listed below:

Cash	$2,768,753.64
Conversion value of original Preferred 6 Per Cent Stock	1,445,888.15
Land	46,500.00
50 Shares of Common Stock of the Ridgefield Light & Power Co.	5,000.00
Reacquired and held for resale	3,700.00
Total	$4,269,841.79
Discount	$450,158.21

The American Power and Light Company on and after March 1, 1925 purchased on the open market practically all of the Common Stock at a cost of $5,095,946.48.

EXHIBIT NO. 76

P. U. C. Oregon Order No. 2228.

Before the Public Utilities Commisioner of Oregon

No. U-F-526

In the Matter of the Investigation of the Rates, Charges and Service of the Northwestern Electric Company.
(On the Commission's own motion).

FINDING OF VALUE

Appearances:

I. H. Van Winkle, Attorney General, and Clark & Clark, for the Commissioner of Public Utilities;

Frank S. Grant, for the City of Portland;

John A. Laing for Northwestern Electric Company.

This cause was commenced by the Public Service Commission of Oregon on April 17, 1928, and was pending at the time the Public Utilities Commissioner succeeded to the powers and duties of the Public Service Commissioner under Chapter 103, Laws, of Oregon, 1931. Evidence was taken in 1932 and, on August 27th, 1932, temporary Order No. 2050 of the Public Utilities Commissioner was entered. The company brought suit in the District Court of the United States for the District of Oregon to enjoin the enforcement of this temporary order. In that suit a temporary restraining order was issued and later

an interlocutory injunction. Before trial or final hearing in the suit, the Commissioner by Order No. 2114, dated May 28th, 1933, vacated said temporary Order 2050.

In the meantime and on May 19th, 1933, the Commissioner on his own motion filed a supplemental and additional complaint in this cause. Thereafter, hearings were had and further evidence taken.

It was stipulated in the hearings that the evidence taken should be directed primarily to the question of the fair value of the properties of the company as of December 31, 1932, used and useful in the generation and distribution of electricity to its customers in Oregon and that a final order fixing the fair value of such properties should be entered and that the other matters involved in this cause should be held open, and additional evidence taken with respect thereto, if desired by the company, the Commissioner or other interested party after determination of the fair value of the aforesaid properties.

The company was organized on January 7, 1911 under the laws of the State of Washington. All capital expenditures of the company have been made from funds derived from three sources, viz: moneys borrowed, sales of preferred stock, and earnings from operations.

On December 31st, 1932, the company had outstanding preferred stock of the par value of $4,819,700.00, long term bonds in the sum of $8,793,600.00, and owed on current debts, notes to affiliated

companies, accruals for taxes and dividends declared and unpaid, $3,579,390.67.

On that date, the company had current assets of $932,718.14 and miscellaneous assets of $1,691,132.73, which included a large sinking fund, making a total of $2,623,850.78.

The company issued $10,000,000.00 par value of common stock in 1912 and 1913. The records of the company and the evidence in the case are clear that no consideration was received for the common stock. The common stock has been carried at its par value, as a stock liability and a balancing item of $10,000,000 carried in fixed capital. During the years 1923, 1924, 1927, 1928, 1929, 1930 and 1931 the company dividends on the common stock in the aggregate sum of $890,000.00.

* * * * * * *

The Operating Fixed Capital as claimed by the company includes an item of $10,000,000.00, which is a balancing item against $10,000,000.00 par value of common stock issued without valuable consideration. It also includes an item of $400,000.00 hereinafter discussed. It also includes a number of other items classed as non-operating by the engineers for the Commissioner. Excluding said items of $10,000,000.00 and $400,000.00 referred to, but including all other items classed as non-operating by the engineers of the Commissioner, the engineers for the company arrive at the figure of $17,009,111.72. Excluding the said items of $10,000,000.00 and $400,000.00, but including, for the purposes of comparison, all other items classed as non-operating by the

engineers for the Commissioner, the company and commission engineers arrive at substantially the same figure for Fixed Capital. These figures are before deduction of the depreciation reserve or the surplus. In order to determine the amount of operating fixed capital, before deduction of depreciation reserve, it will be necessary to examine the items which the engineers for the Commissioner claim should be classified as non-operating and which the company claims should be included in the operating properties. The item of $10,000,000.00 has already been discussed in the preceding pages of this opinion. It is understood that the company does not seriously contend that this item should be retained in fixed capital. There is no basis for such retention, and it is eliminated from operating fixed capital.

With respect to the item of $400,000.00, it is a purely theoretical estimate of the value, in excess of compensation received, of the services said to have been rendered by Messrs. Fleishhacker to the company before and for several years following its organization in 1911. It was made up by Mr. Platt, secretary of the company, in 1933. Mr. Platt entered the employ of the company in 1925, many years after the alleged services were rendered. The Fleishhackers made no charge to the company for these services and nothing was charged to fixed capital or operating expense therefor, either in the time the Fleishhackers were in control of the company up to 1924 or thereafter, until 1933, when the theory was advanced that a value of $400,000.00 should be put

on these alleged services and this amount included in operating fixed capital. The testimony in support of this item is obviously too speculative and conjectural to justify its inclusion in operating fixed capital, and it is therefore eliminated therefrom and should be expunged from the books.

MELWOOD W. VAN SCOYOC

[1169]

Redirect Examination

By Mr. Slaff:

Q. I just have one or two questions not related to the subject of Common Plant.

At pages 271 and 272 of the transcript Mr. Platt referred to a conference of the two regulatory commissions, Washington State and the Oregon Commissioner, with the company, the chiefs of their staffs, were present, and stated that this conference of the responsible heads of these two regulatory bodies arrived at a general agreement on various items and announced that $100,000.00 of this $400,000.00 of organization expense would be recognized in determining historical cost and prudent investment in operating property. You heard him so testify? A. That is correct.

Q. Were you present at that conference?

A. I was.

Q. Now, will you state what your understanding of that situation was?

(Testimony of Melwood W. Van Scoyoc.)

A. In this conference and in a number of conferences previously held we were attempting—When I speak of "we" I mean the Oregon Commissioner and the Washington Commission— to come to an agreement with the company as to the value of its property for rate-making purposes.

At that time the order No. 2228 of the Oregon Commiss- [1170] ioner was on appeal to the Circuit Court of Multnomah County; and he was looking towards the avoidance of any further litigation in that respect. And as a part of a general agreement, Commissioner McCollouch of the Oregon Commission and Director Schaaf of the Washington Department of Public Service agreed to allow $100,000 as a part of the company's organization expense, in lieu of the $400,000.00 which had been recorded on the company's books, and as to which Mr. Platt testified, in the company's rate base.

This agreement was made with the understanding that the company would accept a rate base on the basis of historical costs. It later developed that the company for some reason did not wish to accept any stipulation as to a rate base on that sort of a basis, and therefore I have always considered that any such agrreement made at that conference was null and void, so to speak.

Personally, I never subscribed to the item of $100,000.00 as proper organization expense of Northwestern Electric Company.

(Testimony of Melwood W. Van Scoyoc.)

Q. That is your independent recollection of what took place at that time, as to (which) Mr. Platt testified in this case? A. That is correct.

Q. And after that time did you take occasion to discuss the matter generally with former Commissioner McCollouch [1171] A. I did.

Q. And in the light of your discussion with him, did you change your recollection in the slightest?

A. No, sir. [1172]

Q. I think perhaps your testimony just now, Mr. Van Scoyoc, confirms our own views with respect to it, that the thing which the company did in connection with carrying out a general compromise was not binding on either the Commissions or the company, and therefore all bets were off as far as that was concerned?

A. That is exactly my understanding.

Q. Now, just as a matter of clarifying the record. The reason why the company and the Oregon Commission didn't work this thing out finally was because the company objected to the Commissioners making a determination of prudent historical cost as such, as representing the value of the property? Wasn't that it, Mr. Van Scoyoc?

A. My recollection is, Mr. Laing, that it was more the question of whether depreciation should be deducted in fixing [1173] the value on the basis of prudent historical cost.

(Testimony of Melwood W. Van Scoyoc.)

Q. There was no quarrel between the company and your staff or the Commissioner's staff on the question of the prudent historical cost of this property, was there?

A. No, we finally agreed, including the item of $100,000 which the Commissioner decided should be allowed, this was not a staff decision.

Q. And the problem then became one that the Commissioner, under the statute, could only make an order fixing the value, isn't that it? I mean under the language of the statute he has to fix a value?

A. He has to fix a value, but I don't know that he is restricted in any sense in not fixing a value on original cost less depreciation.

Q. No, I don't mean that, Mr. Van Scoyoc; but the Commissioner did not feel that he could make a finding per se as to what the original cost was but he must make a finding as to what the value was, isn't that right? A. That is right.

Q. And the company felt that its position, as to certain purposes, as to the value of these properties, could be compromised by accepting a figure of valuation which was really a figure of costs, isn't that what it amounted to?

A. That is right. We proceeded on the theory and I think had some fairly definite agreement that the Company [1174] would be agreeable to stipulating the value on that basis.

Q. Agreeable to have the rates calculated on that basis? A. That is right.

(Testimony of Melwood W. Van Scoyoc.)

Q. But for general purposes the valuation of its property, as far as the valuation of its property is concerned, the actual value should be represented by something other than mere historical cost, isn't that what it amounted to? A. I think so. [1175]

In the United States Circuit Court of Appeals
for the Ninth Circuit

No. 9756

NORTHWESTERN ELECTRIC COMPANY,
Petitioner,

v.

FEDERAL POWER COMMISSION,
Respondent.

CERTIFICATE OF CLERK

I, Leon M. Fuquay, Secretary of the Federal Power Commission and official custodian of the records of said Commission, do hereby certify that the attached are true copies of:

1. Order to show cause and fixing date for hearing entered June 18, 1940;

2. Order changing date for hearing entered on July 3, 1940;

3. Designation of trial examiner filed July 3, 1940;

4. Application for continuance of hearing filed July 5, 1940;

5. Order denying application for continuance entered July 9, 1940;

6. Respondent's motion to dismiss filed July 17, 1940;

7. Order denying motion to dismiss entered July 19, 1940;

8. Respondent's answer to show cause order filed July 22, 1940;

9. Petition to intervene filed by Public Utilities Commissioner of Oregon on July 22, 1940;

10. Petition to intervene filed by the Department of Public Service of Washington on July 22, 1940;

11. Order permitting Public Utilities Commission of Oregon to intervene entered July 25, 1940;

12. Order permitting Department of Public Service of Washington to intervene entered July 25, 1940;

13. Transcripts of hearings held July 22, 23, 24, 25, 26, 27, 29, 30, 31 and August 1, 1940;

14. Exhibits Nos. 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 23, 24, 25, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39, 40, 41, 42, 43, 44, 45, 46, 47, 48, 49, 50, 51, 52, 53, 54, 55, 56, 57, 58, 59, 60, 61, 62, 63, 64, 65, 66, 67, 68, 69, 70, 71, 72, 73, 74, 75, 76, 77, and 78, all of which were introduced into evidence at the hearings described in item No. 13;

(Copies of Exhibits Numbers 22 and 26 were not furnished to the Commission by the

Washington Department of Public Service which offered them in evidence. Counsel for Appellant and Appellee have agreed that these Exhibits (among others) are not to be printed. Exhibits Numbers 22 and 26 are therefore not certified hereunder.)

15. The report of Respondent for the year 1939 filed as FPC Form No. 64 and the revised report on same form for the year 1938 and for the year 1937, (T. 758), introduced into evidence by reference at the hearings described in item No. 13;

16. The statement of Respondent on production, transmission and utilization of electric energy for the years 1934, 1935, and 1936 on FPC From No. 11-127 (T. 759), introduced into evidence by reference at the hearings described in item No. 13;

17. Annual Report of Respondent to the Federal Power Commission (FPC Form No. 1) for the year ending December 31, 1939, for the year ending December 31, 1938, and for the year ending December 31, 1937 (T. 759), introduced into evidence by reference at the hearings described in item No. 13;

18. Report of the Inland Power & Light Company on FPC Form No. 64-A for the year 1939, relative to the Ariel plant and Ariel Northern substation transmission line (T. 759), introduced into evidence by reference at the hearings described in item No. 13;

19. Rate schedules of Respondent designated in the files of the Commission as FPC No. 1, dated June 6, 1930; FPC No. 4, dated November 9, 1931, and the supplement thereto dated February 2, 1935; FPC No. 6, dated August 3, 1939; FPC No. 13, dated January 11, 1940, and the supplement thereto dated February 13, 1940; FPC No. 10, dated February 2, 1936; and FPC No. 12, dated January 10, 1939 (T. 760, 761), introduced into evidence by reference at the hearings described in item No. 13;

20. Rate schedules of the Inland Power & Light Company designated as FPC Rate Schedule No. 1, dated December 31, 1931, and FPC No. 6, dated November 21, 1938 (T. 761), introduced into evidence by reference at the hearings described in item No. 13;

21. Opinion No. 56 and order directing accounting entries in reclassification and disposition of amounts in Account 107 filed and entered December 6, 1940;

22. Respondent's petition for stay of Commission's order filed December 26, 1940;

23. Order granting petition for stay of the Commission's order of December 6, 1940, entered December 30, 1940;

24. Respondent's application for rehearing filed January 9, 1941;

25. Petition of American Power & Light Company to intervene filed January 18, 1941;

26. Order on application for rehearing entered January 21, 1941;

27. Order permitting the American Power & Light Company to intervene entered January 28, 1941;

all of which constitute the record before the Federal Power Commission in the matter of Northwestern Electric Company, Docket No. IT-5642.

In witness whereof I have hereunto subscribed my name and caused the seal of the Federal Power Commission to be affixed this 17th day of March, 1941, at Washington, D. C.

[Seal] LEON M. FUQUAY
Secretary.

[Endorsed]: No. 9756. In the United States Circuit Court of Appeals for the Ninth Circuit. Northwestern Electric Company, Petitioner, vs. Federal Power Commission, Respondent. Upon Petition to Review an Order of the Federal Power Commission.

Filed, March 21, 1941.

PAUL P. O'BRIEN,
Clerk of the United States Circuit Court of Appeals for the Ninth Circuit.

In the United States Circuit Court of Appeals
for the Ninth Circuit

No. 9756

NORTHWESTERN ELECTRIC COMPANY,
Petitioner,

v.

FEDERAL POWER COMMISSION,
Respondent.

STATEMENT OF POINTS AND DESIGNATION OF RECORD

Comes now Northwestern Electric Company, the petitioner in the above entitled cause, and adopts the assignments of error as set forth in paragraphs IX to XIII, inclusive, of its Petition for Review herein filed, as a statement of the points on which petitioner intends to rely on review in said cause.

Petitioner designates the parts of the record of this cause which have been certified to this Court by the Federal Power Commission hereinafter specified as the record by it deemed necessary for the consideration of said points or as agreed upon by counsel for petitioner and respondent, but without prejudice to the right of respondent, under rule of this Court, to designate a part of the record not so agreed upon.

Petitioner's said designation is as follows, namely:

Transcript

(All references to lines are inclusive.)

Page 23, line 23 to page 32, line 3;

Page 34, line 15 to page 35, line 17;

Page 36, line 3 to page 37, line 10;

Page 41, line 7 to page 42, line 11;

Page 83, line 25 to page 87, line 1;

Page 95, line 7 sentence beginning "Will you" to and including "construction" in line 9;

Page 95, line 11 to page 96, line 8;

Page 97, line 8 to page 97, line 16;

Page 163, line 1 to page 184, line 6;

Page 184, line 10 to page 187, line 8 (Adding "Objection joined in by Oregon Public Utilities Commissioner and Washington Department of Public Service and, after argument, sustained");

Page 194, line 14 to page 198, line 7;

Page 199, line 1 to page 253, line 20;

Page 258, line 21 to page 286, line 15;

Page 349, line 23 to page 354, line 3;

Page 361, line 19 to page 403, line 8;

Page 429, line 12 to page 433, line 16;

Page 467, line 18 to page 476, line 8;

Page 476, line 13 to page 497, line 18;

Page 510, line 16 to page 512, line 6;

Page 540, line 20 to page 540, line 24;

Page 541, line 18 to page 594, line 24, omitting the words: "all right";

Page 609, line 6 to page 609, line 13; (Beginning with "I will say" and ending with "utilities");

Page 642, line 1 to page 643, line 24;
Page 656, line 15 to page 659, line 10;
Page 676, line 1 to page 680, line 23;
Page 682, line 13 to page 684, line 16, ending with "not";
Page 684, line 25 to page 694, line 24;
Page 696, line 20 to page 698, line 2;
Page 699, line 23 to page 722, line 3;
Page 723, line 8 to line 24;
Page 764, line 2 to page 776, line 17;
Page 828, line 3 to page 835, line 26;
Page 842, line 12 to page 843, line 6;
Page 845, line 1 to page 857, line 15;
Page 863, line 3 to page 865, line 23;
Page 871, line 5 to line 20;
Page 884, line 11 to line 14;
Page 902, line 14 to page 974, line 4;
Page 977, line 4 to page 985, line 18;
Page 989, line 15 to page 993, line 12;
Page 1001, line 21 to line 23;
Page 1003, line 7 to page 1006, line 12;
Page 1007, line 8 to page 1009, line 6;
Page 1009, line 21 to page 1016, line 18;
Page 1018, line 1 to page 1025, line 23;
Page 1026, line 20 to page 1029, line 1;
Page 1029, line 6;
Page 1029, line 16 to page 1050, line 6;
Page 1052, line 3 to page 1075, line 23;
Page 1086, line 9 to page 1103, line 16;
Page 1106, line 3 to page 1107, line 9;
Page 1107, line 24 to page 1108, line 13;

Page 1112, line 4 to page 1113, line 14;
Page 1118, line 17 to page 1120, line 12;
Page 1135, line 3 to page 1136, line 16;
Page 1142, line 7 to page 1142, line 15;
Page 1143, line 9 to page 1156, line 6;
Page 1169, line 6;
Page 1170, line 1 to page 1172, line 4; and
Page 1173, line 10 to page 1175, line 10.

Exhibits

No:	Description
1	Reclassification of Plant Accounts as of January 1, 1937, submitted by Northwestern Electric Company.
2	Northwestern Electric Company letter of May 27, 1939, signed by C. W. Platt, transmitting Reclassification Report.
3	Joint Report.
4	Letter to Northwestern Electric Company dated May 1, 1940, from Federal Power Commission, signed by Charles W. Smith, Chief, Bureau of Accounts.
5	Letter to Federal Power Commission from Northwestern Electric Company, dated May 31, 1940, signed by C. W. Platt.
6	Federal Power Commission's Uniform System of Accounts.
16	Agreement to stipulate dated March 16, 1934, re Herbert Fleishhacker's settlement of federal income tax, years 1924-1929, inclusive.

No.	Description
17	Stipulation re above.
18	Order re above.
19	Uniform System of Accounts of Oregon, effective January 1, 1925.
20	Letter to Federal Power Commission from Northwestern Electric Company, dated Nov. 25, 1938, signed by C. W. Platt.
22	That part of the text of Exhibit 22 pertaining to fixed capital accounts which comprises account number "No. 1, Organization," which text, by agreement of counsel for the petitioner and the respondent, shall be furnished for the record by petitioner under certification of the Department of Public Service of the State of Washington.
29	NARUC Uniform System of Accounts of Nov. 13, 1936 (State Law Reporting Company, New York).
33	Northwestern Electric Company statement of income and profit and loss for the years ended Dec. 31, 1920, and 1919, and comparison.
42	Order No. 42, Federal Power Commission, adopting Uniform System of Accounts.
44	Federal Power Commission Order of May 11, 1937, in connection with Uniform System of Accounts.
45	Letter to Northwestern Electric Company from Federal Power Commission, dated June 7, 1939, signed by Leon M. Fuquay.

No.	Description
46	Letter to Federal Power Commission from Northwestern Electric Company, dated July 14, 1939, signed by C. W. Platt.
47	Letter to Northwestern Electric Company from Federal Power Commission, dated June 26, 1939, signed by Leon M. Fuquay.
48	Letter to Federal Power Commission from Northwestern Electric Company, dated July 22, 1939, signed by C. W. Platt.
49	Letter to Northwestern Electric Company from Federal Power Commission, dated August 17, 1939, signed by Charles W. Smith.
50	Letter to Federal Power Commission from Northwestern Electric Company, dated September 13, 1939, signed by C. W. Platt.
51	Letter to Northwestern Electric Company from Federal Power Commission, dated October 3, 1939, signed by Charles W. Smith.
52	Letter to Northwestern Electric Company from Federal Power Commission, dated November 3, 1939, signed by Leon M. Fuquay.
53	Letter to Federal Power Commission from Northwestern Electric Company, dated November 10, 1939, signed by C. W. Platt.
54	Facing page and verification page of annual report of Northwestern Electric Company to Federal Power Commission for year ended December 31, 1938.
55	Facing page and verification page of annual report of Northwestern Electric Company to

No. Description

Federal Power Commission for year ended December 31, 1939.

56 Facing page and verification page of annual report of Northwestern Electric Company to Oregon Public Utilities Commissioner for year ended December 31, 1938.

57 Facing page and verification page of annual report of Northwestern Electric Company to Oregon Public Utilities Commissioner for year ended December 31, 1939.

58 Extract of minutes of Northwestern Electric Company trustee's meeting of April 12, 1915.

59 Certified copy of uniform classification of accounts for electric utilities of Oregon Railroad Commission, effective July 1, 1913 (Facing page and pp. 9, 10, 11, 12, 26, 27 and 47).

60 Certified copy of page 3 of annual report of Northwestern Electric Company for year ended June 30, 1914; filed October 17, 1914.

61 Oregon Uniform System of Accounts effective Jan. 1, 1937.

63 Oregon Public Utilities Commissioner Order No. 3664—Application of Northwestern Electric Company for order approving reduction in par value of common stock and authorizing issuance and exchange of stock certificates.

64 Washington Department of Public Service findings of fact and order, dated September 3, 1936 (Cause No. 6969)—Application of Northwestern Electric Company for order approving re-

No.	Description
	duction of par value of common stock and authorizing issuance and exchange of common stock certificates.
65	Certified copy of pages 2 and 4 (new) of annual report of Northwestern Electric Company for year ending June 30, 1914.
66	Certified copy of pages 4, 5-a, 5-b, and 5-c of annual report of Northwestern Electric Company for year ending June 30, 1915.
67	Certified copy of pages 4, 5-a, 5-b, and 5-c of annual report of Northwestern Electric Company for year ending June 30, 1916.
69	Copy of voucher No. 219—Reimbursement of Fleishhacker expenses through May 6, 1912.
70	Certified copy of pages 107-119, testimony of Guy W. Talbot—Cause U-F 616, Oregon Public Utilities Commissioner.
71	Northwestern Electric Company Articles of Incorporation, including certain amendments.
72	Northwestern Electric Company Trustees' minutes, meeting of June 12, 1912.
73	Northwestern Electric Company's Annual Report, 1938.
74	Northwestern Electric Company's Annual Report, 1939.
75	Public Utilities Commissioner of Oregon Order No. 2050 (August 27, 1932), pp. 1, 2 and 3 to words "funded and unfunded indebtedness."

No.	Description
76	Public Utilities Commissioner of Oregon Order No. 2228 (March 12, 1934), pp. 1 and 2 to words "The Company began"; p. 7 last paragraph to p. 8 end of first full paragraph.

Pleadings

1	Order to show cause and fixing date for hearing entered June 18, 1940;
2	Motion to dismiss filed July 17, 1940; (excluding "Preliminary Brief" if attached thereto);
3	Order denying motion to dismiss entered July 19, 1940;
4	Answer to show cause order filed July 22, 1940;
5	Federal Power Commission Opinion No. 56 and order directing accounting entries in reclassification and disposition of amounts in Account 107 filed and entered December 6, 1940;
6	Application for rehearing filed January 9, 1941; and
7	Order on application for rehearing entered January 21, 1941.

Petitioner will forthwith furnish to the Clerk of the above entitled Court twenty (20) printed copies of each of the following exhibits, for use as part of the record on review: Exhibits 6, 19, 29, 61, 73, and 74.

Dated March 26, 1941.

JOHN A. LAING,
HENRY S. GRAY,
Public Service Building,
Portland, Oregon
A. J. G. PRIEST,
SIDMAN I. BARBER,
Two Rector Street,
New York, New York,
Attorneys for Petitioner.

Certificate of Service

I hereby certify that on March 26, 1941, I served the foregoing document, entitled "Statement of Points and Designation of Record", upon the Federal Power Commission, by mailing a copy thereof, properly addressed, postage prepaid, to George Slaff of counsel for the Federal Power Commission.

Dated at Portland, Oregon, this 26th day of March, 1941.

JOHN A. LAING
Of counsel for Northwestern
Electric Company, Petitioner.

[Endorsed]: Filed Mar. 28, 1941. Paul P. O'Brien, Clerk.

[Title of Circuit Court of Appeals and Cause.]

DESIGNATION OF ADDITIONAL PART OF THE RECORD BY RESPONDENT

Comes now the Federal Power Commission, Respondent in the above-entitled cause, and, in addition to those parts of the record of this cause which have been previously designated by the Petitioner, hereby designates the following part of the record to be printed:

Transcript

(Reference to lines is inclusive.)

Page 498, line 3 to page 510, line 15.

Dated April 9, 1941.

WILLIAM S. YOUNGMAN, JR.,
RICHARD J. CONNOR,
GEORGE SLAFF,
MILFORD SPRINGER,
Attorneys for Respondent.

Certificate of Service

I hereby certify that on April 9, 1941 I served the foregoing document, entitled "Designation of Additional Part of the Record by Respondent", upon the Northwestern Electric Company, Petitioner herein, by mailing copies thereof, properly addressed, postage prepaid, to John A. Laing, Henry S. Gray, A. J. G. Priest, and Sidman I. Barber, Attorneys for the Northwestern Electric Company, Petitioner.

Dated at Washington, D. C., this 9th day of April, 1941.

GEORGE SLAFF,
Of Counsel for Federal
Power Commission, Respondent.

[Endorsed]: Filed Apr. 11, 1941. Paul P. O'Brien, Clerk.

CLERK'S COPY.

Vol. III

TRANSCRIPT OF RECORD

Supreme Court of the United States

OCTOBER TERM, 1943

No. 195

NORTHWESTERN ELECTRIC COMPANY AND AMERICAN POWER & LIGHT COMPANY, PETITIONERS,

vs.

FEDERAL POWER COMMISSION

ON WRIT OF CERTIORARI TO THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE NINTH CIRCUIT

PETITION FOR CERTIORARI FILED JULY 23, 1943.

CERTIORARI GRANTED OCTOBER 11, 1943.

TRANSCRIPT OF RECORD

In Four Volumes

Supreme Court of the United States

October Term, 1941

No.....

NORTHWESTERN ELECTRIC COMPANY,
Petitioner,

vs.

FEDERAL POWER COMMISSION,
Respondent.

VOLUME III

(Exhibits 1, 3, 6, 19, 29, 61, 73 and 74)

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE NINTH CIRCUIT.

No. 9756

United States

Circuit Court of Appeals

For the Ninth Circuit.

NORTHWESTERN ELECTRIC COMPANY,
Petitioner,

vs.

FEDERAL POWER COMMISSION,
Respondent.

Transcript of Record

In Three Volumes

VOLUME III

(Exhibits 1, 3, 6, 19, 29, 61, 73 and 74)

Upon Petition to Review an Order of the Federal Power Commission